Annual Report | 2004-05

Farm Credit Canada

Farm Credit Canada

The Road to Success. Made in Canada.

What does success mean to you? Ask 10 people and there will be 10 different answers. It may be helping someone realize the dream of diversifying the family grain farm with a secondary enterprise. It's bringing an amazing business idea to life. Or it may be the satisfaction of planting a new crop. What matters is that success is personal.

At the same time, success is rarely a solo mission. Many talk about the right-hand man or woman at their side through challenges and plain hard work.

Relationships begin with collaboration. With sincere commitment and true connection, relationships stand the test of time. FCC understands the importance of relationships with producers, agri-food operators, equipment suppliers, financial lenders, community groups and everyone else who loves this industry as we do and earns a living from it. Working with each other paves the way to everyone's success.

Success

How does an organization connect with people to help map out their personal road to success? For starters, it takes people with a genuine interest in the customers they serve. The "customer experience" is a term you hear everywhere around FCC. We want every customer to feel that FCC listens to his or her unique needs. We have the ability to help customers from start-up and growth to sustained success.

We facilitate our customers' ability to succeed by offering courses that teach strong business management skills.

We provide software specifically designed for agriculture that provides access to crop and field data from anywhere – home, office or the tractor in the field.

“ Communication is key to unleashing the power of people. This results in strong customer relationships, engaged employees, financial sustainability and growth. ”

We offer a range of loans designed exclusively for agriculture.

We offer secure investment alternatives such as bonds and peace of mind with insurance that protects families and their operations.

We offer venture capital available only to the agriculture and agri-food industry.

Whatever work we engage in, you can count on our deep interest in the long-term health of agriculture.

Employees – our foundation

There is a unique energy at FCC. We are committed to each other's success. This helps retain our most valuable asset – our people. And when attracting new employees, it doesn't hurt that we're recognized as one of Canada's top employers.

We believe the foundation of any relationship is communication. John Ryan, President and CEO says, “Communication is key to unleashing the power of people.” This results in strong customer relationships, engaged employees, financial health and continued growth.

Excellent communication is characterized by deep listening. Not simply listening to hear, but listening to understand. In 2004, more than 40 per cent of FCC's business came from new loans and services that did not exist five years ago. Many were created in response to customer ideas.

We put a lot of effort into nurturing open relationships inside FCC and we stress the importance of demonstrating these skills with customers. We strive to meet with customers and partners on their terms, be it face to face, by phone or via secure, around-the-clock web access.

Corporate social responsibility

Our sense of corporate social responsibility extends far beyond giving to the communities we serve. It is rooted in our mission, vision, corporate values and cultural practices that serve the needs of the agriculture industry.

We focus on developing employees, capturing knowledge in the agriculture marketplace and measuring performance, as well as fostering a climate where diverse thoughts and backgrounds are welcome.

We provide visible support to rural Canada through community investments such as our AgriSpirit Fund, FCC 4-H Scholarship Program, Employee Volunteer Program, World Food Day activities and the Holiday Cheer campaign, just to name a few. Our commitment to do business responsibly safeguards the environment.

Agriculture and Canada – our focus

We are proud to be Canadian. We are a federal Crown corporation and paid a dividend this year to our shareholder, the Government of Canada.

Our customers plant crops and raise livestock and poultry on Canadian soil. They run aquaculture operations in Canadian waters.

Our agri-food and value-added customers contribute to Canada's world class reputation.

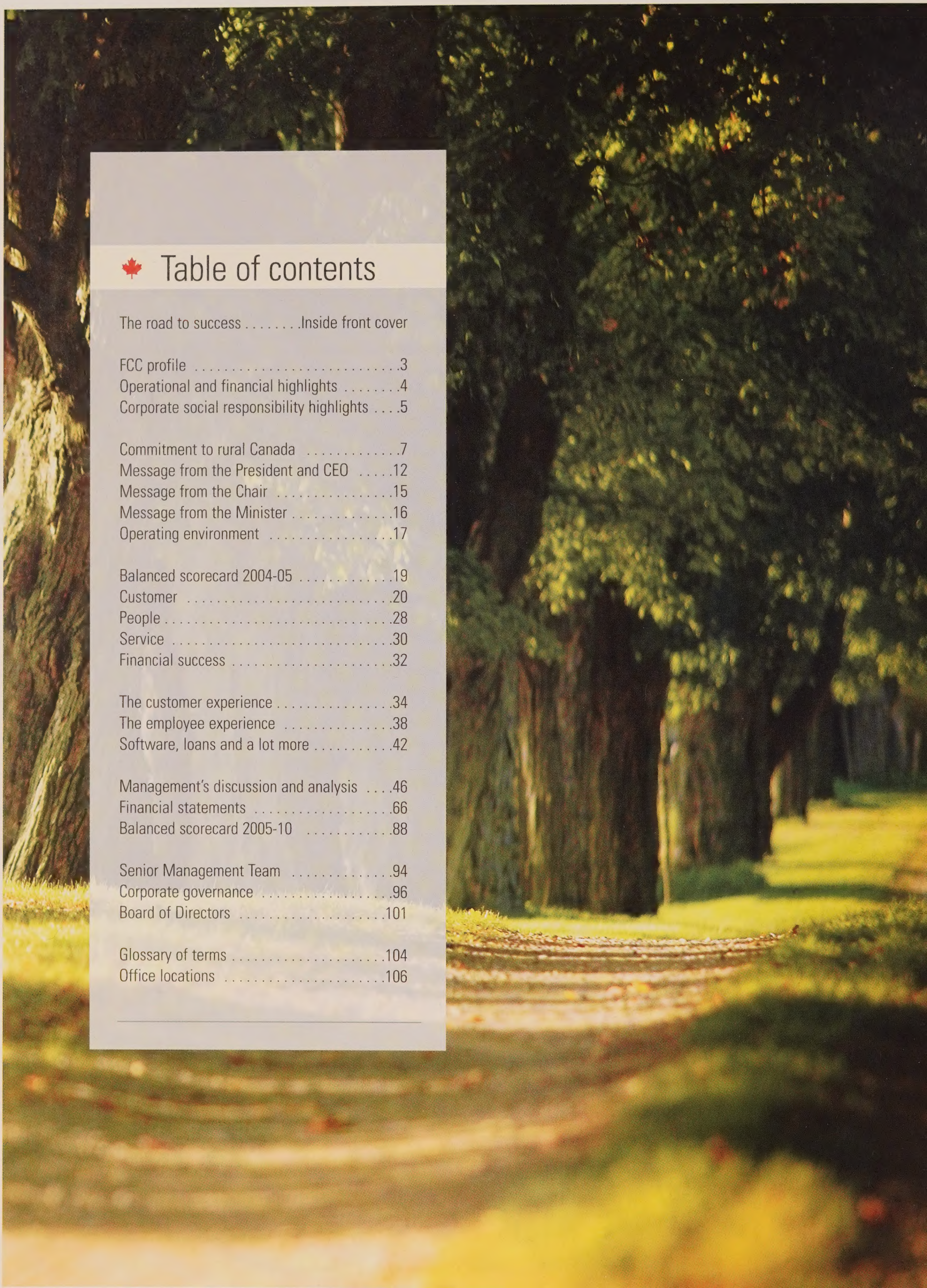
We provide incentives to young people who spearhead projects to enhance their rural communities. Our employees give back to the communities where they live and work.

We bring community projects to life with funding and by extending a helping hand.

We believe volunteering time is as valuable as giving money. We collect donations for food banks throughout the year, and volunteer thousands of hours to community groups and charities.

Many FCC employees grew up on farms. They share stories around the office about the highs and lows. Many still help out on the family farm by lending a hand during seeding and harvest.

Agriculture. We know it, we love it and we're in it for the long run.



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Driving forward – FCC profile

Vision

Visionary leaders and trusted partners – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Agriculture. It's all we do.

Farm Credit Canada (FCC) is all about agriculture. We help Canadian producers, suppliers and processors succeed. We are a self-sustaining federal Crown corporation.

Our commitment to corporate social responsibility (CSR) is evident in our public policy role, how we develop our employees, our dealings with customers and suppliers, our commitment to invest in the communities we serve and our dedication to protect and treat the environment.

We have served the agriculture industry for 45 years. It is our sincere privilege to work with those who feed our country and the world.

Mission

To enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

FCC fulfils its mission by offering loans and services to the agriculture community, using solid business principles.

Corporate values

Our corporate values guide our conduct with colleagues, customers and stakeholders:

Focus on the customer
We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity
We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Working together
We believe in the power of teamwork. We work together with customers to design solutions tailored to their needs. We partner with other organizations to the benefit of customers.

Give back to the community
We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieving excellence
We are committed to one thing – the success of the Canadian agriculture industry. And what we do, we do very well. We always set our sights high, strive to learn more and work to build a business that benefits customers and helps employees achieve their potential.

Cultural practices

FCC's cultural practices support the achievement of our corporate values. They detail how we work with one another – primarily within FCC, and also with suppliers, customers, partners and other stakeholders. We believe that a positive employee climate drives great customer experiences.

Accountability is the key to our cultural practices.

We hold ourselves and each other accountable for:

- our impact on business results and our impact on people;
- delivering on commitments, agreements and promises;
- building and sustaining committed partnerships; and,
- creating a safe environment where people can speak up without fear.

We measure our success by how others perceive and respond to our leadership, not by our personal point of view.

We talk straight in a responsible manner.

We are committed to the success of others – we do not engage in "conspiracies against" people.

We "listen for" contributions and commitment. We do not listen against people or ideas.

We are highly coachable. We actively seek and listen to coaching.

We clean up and recover quickly.

We acknowledge others often and celebrate both small and large successes.



Operational and financial highlights

For the year ended March 31, 2005

In 2004-05 FCC experienced another year of exceptional growth with our portfolio growing by $1.1 billion and an 11.7 per cent increase in net income. The number of disbursements continued to increase with net disbursements reaching $3.1 billion. Our net interest income continues to grow somewhat offset by increases in provision for credit losses and administration expenses. The increased net income and equity continues to build a strong financial foundation ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles.

Operational	**2005**	**2004**	**2003**	**2002**	**2001**
Loans Receivable Portfolio					
Number of loans	**85,650**	82,551	78,442	75,888	75,202
Loans receivable ($ millions)	**11,150.0**	10,039.0	8,803.7	7,708.5	6,903.6
Net portfolio growth (per cent)	**11.1**	14.0	14.2	11.7	9.5
Loans receivable in good standing (per cent)	**96.9**	96.0	96.4	96.5	95.5
New Lending					
Number of loans disbursed	**27,948**	26,529	25,133	16,753	14,471
Net disbursements ($ millions)	**3,067.2**	2,861.7	2,561.4	2,102.0	1,667.5
Average size of loans disbursed ($)	**109,747**	107,871	101,914	125,470	115,230

Financial	**2005**	**2004**	**2003**	**2002**	**2001**
Balance Sheet ($ millions)					
Total assets	**11,405.0**	10,203.9	8,982.3	7,876.6	7,177.8
Total liabilities	**10,320.5**	9,258.7	8,142.7	7,133.4	6,347.3
Equity	**1,084.5**	945.2	839.6	743.2	830.5
Income Statement ($ millions)					
Net interest income	**351.9**	314.4	273.2	204.9	165.5
Provision for credit losses	**95.2**	84.0	67.2	45.5	40.2
Other fees and income	**5.0**	4.1	6.6	7.4	25.5
Administration expenses	**143.7**	128.9	116.3	98.6	91.6
Income before income taxes	**118.0**	105.6	96.3	68.2	59.2

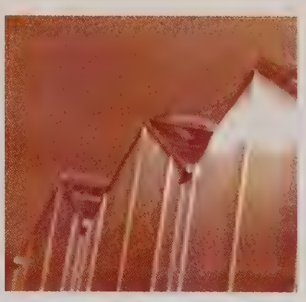
Corporate social responsibility highlights

For the year ended March 31, 2005

According to the Conference Board of Canada, corporate social responsibility (CSR) is about "transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society."

The following summary was adapted from the Globe and Mail's Report on Business second annual CSR Ranking to measure FCC's progress in five key decision-making, behaviour and performance priority areas.

	2004-05
Community investment	
Policy statement on community donations is available to the public	yes
Calculates donations based on one per cent of profits	yes
Programs are in place to support employee giving and volunteering	yes
Corporate governance	
Statement of social responsibility	not yet
Statement of corporate values	yes
Code of business conduct	in progress
Board Chair and company CEO are separate functions	yes
Customers	
Conducts customer satisfaction surveys	yes
Helps customers market their products	yes
Loans available that help people get into agriculture	yes
Offers industry-related training	yes
Employees	
Conducts employee satisfaction surveys	yes
Provides employees with education and development	yes
Conducts annual market compensation reviews	yes
Policy on diversity and employment equity	yes
Publicly reports on diversity issues	yes
Offers employees diversity training	yes
Benefits include additional maternity and paternity benefits	yes
Percentage of women on the board	42
Percentage of women among senior managers	10
Environment	
Corporate environmental management systems in place, including policies, programs and performance analysis	not yet
Reports on resource use (energy, materials, water)	not yet
External reporting on lending environmental risk management	in progress
Lending environmental risk management policy and processes, including environmental risk assessment	yes
Offers loans that reduce the environmental impact	yes
Environmental reporting, including policy, programs and initiatives, performance and compliance data	in progress
Human rights	
Human rights policy and code of conduct	yes
Policy/code of conduct governing the supply chain of procured items	not yet



Commitment to rural Canada

FCC's commitment to agriculture and rural Canada is steadfast. Actions speak louder than words and we are proud to offer a few highlights that demonstrate our passion for the success of our employees, customers and the industry.

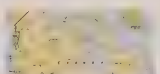
"We produce a lot of food in our country, and people – especially children – should not go hungry. Plain and simple. This trek was all about what we as individuals can do to impact the communities we live and work in. I'm not asking everyone to commit to a week-long journey on a tractor like I did, but consider what difference you could make. Let's do what we can collectively to drive away hunger." Dale Snider, FCC District Manager in Listowel after arriving in Owen Sound, Ontario and wrapping up his Drive Away Hunger Tour.

Dale Snider drove an open tractor pulling a trailer across midwestern Ontario for a week-long journey in September, armed with a coffee mug, sleeping bag and determination. We called it Drive Away Hunger. In the end, more than $28,000 and 19,000 pounds of food were collected for Ontario food banks by Snider and his FCC team, which included Sharon Fendley, Darryl Smith, Carole Schwartz, and a cast of many from the Strategy, Knowledge and Reputation team.

Drive Away Hunger fuelled the spirit behind another 20 FCC activities across Canada in October that raised 30,000 pounds of food to mark World Food Day. At our corporate office in Regina, a corporate challenge with other organizations raised 32,000 pounds of food in one day.

In addition, we donated $25,000 to the Canadian Association of Food Banks to support the National Food Sharing System. This system ensures that food gets to the areas that need it most in rural neighbourhoods.

We helped feed Canadians during the December holidays by partnering with the Dairy Farmers of Ontario (DFO) and donating $10,000. It was part of the DFO's ongoing milk donation program from Ontario dairy farmers to the Ontario Association of Food Banks. This donation highlighted our Holiday Cheer program. We donated to hunger awareness and fundraising campaigns across the country in December. In addition, FCC employees volunteered their time over the holidays to organize activities in 74 Canadian communities.



"When I think of supporting rural Canada, my first reaction is to talk about our community investments. There's all our work with food banks and rural safety, our new AgriSpirit Fund and the agricultural trade shows and community events that we sponsor. These are real examples of our commitment to rural Canada, and it makes me proud to work here." Charles Gauvin, FCC Account Manager in St-Hyacinthe, Quebec.

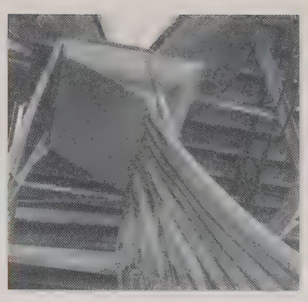
We're proud to be part of the Canadian Centre for Philanthropy's Imagine program. This means we donate at least one per cent of our profits each year to Canadian charities and other not-for-profit organizations.

We partner with St. John Ambulance to deliver First Aid on the Farm, a national program offered to schools, 4-H clubs and rural community members to heighten farm safety awareness. Since 2001, more than 4,925 students at 188 schools across Canada have been trained.

The FCC AgriSpirit Fund was launched in November. The purpose of the fund is simple – to help turn community improvement dreams into reality by making $400,000 available for funding. FCC will support 38 projects across Canada in 2005.

"If economic factors or profits were our only motive, I don't think we'd maintain a presence in every province or in all the communities that we do. With all the advances in technology, there's an argument that we don't need 100 offices across the country. We know there is strength in community. Our customers want to spend time with us face to face. E-mail and video conferencing are great, but nothing compares to sitting at the kitchen table with a customer and talking about agriculture and food." Greg Stewart, FCC Executive Vice-President, National Operations.

We provided $3.1 billion in new financing to the agriculture industry last year and more than 90 per cent of that served primary producers. Customers today use a range of loans and business services, a reflection of the fact that doing business in agriculture is becoming more and more complex.


"We continue to demonstrate our long-term commitment to agriculture. We didn't close shop on beef customers when the border didn't open. We didn't pull our funding from poultry producers in British Columbia when avian flu hit. And we helped grain customers who faced an early frost in August. We stand by our customers. We really do work with them to make arrangements to see them through tough times and ensure they're around to enjoy the good times again." Lang Ellison, FCC Account Manager in Kelowna, British Columbia.

We've welcomed a lot of new customers who are part of the agriculture food chain. We're proud to serve food processors (such as dairy, cheese, fruit, vegetable, egg, poultry, and niche or specialty products), flour mills, further processors of chicken, pork and beef, building and equipment manufacturers, food and livestock distributors, wineries and greenhouses – just to name a few. We also directly fund larger-scale commercial agribusinesses. In some cases, we've partnered with other financial institutions to provide a complete package of financing for larger projects.

"As our rural population ages, a lot of people will be looking forward to retirement. They need the management skills and the tools to pass on their assets to a family member or other buyer. That leads right to succession planning and our Transition Loan. It ensures the seller gets cash up front while the new entrant has time to pay and only has to put 10 per cent down. Basically, FCC is the middle person and it works for us and the customer." Gary Aubin, FCC Account Manager in Grande Prairie, Alberta.

Because there's no one-size-fits-all loan for our customers, we offer 18 types of loans. Our loan portfolio offers flexibility, giving our customers room to move. It puts the reins in their hands so they can quickly jump on opportunities that come up.

"I wanted everyone to know that beef is safe and nutritious. My idea was to organize a 'Beef it Up!' tent with interactive educational games, including 'Beef it Up!' Jeopardy and the 'Beef it Up!' Wheel that educated participants about the importance of beef," says Alison Kumpula from Lac La Biche, Alberta. Alison was the FCC 4-H Scholarship winner for B.C. and Alberta in 2004. We built stronger communities by awarding 10 $1,500 scholarships to 4-H members across Canada this year. An additional $2,000 scholarship and an implementation budget of up to $3,000 is provided each year to a national 4-H winner based on the community project he or she submits. In addition to Alison's "Beef it Up!" idea, last year's winning community projects included a local food guide and a road safety educational video.

"FCC Ventures is another way we support businesses that impact rural Canada. We recognize that it takes time for businesses to grow and expand, and we want to be there to help small to medium-sized ventures focus on their best opportunities for success. In our first three years, FCC Ventures has provided $31.1 million in venture funding." Jim Taylor, Vice-President, Venture Capital, FCC Ventures.

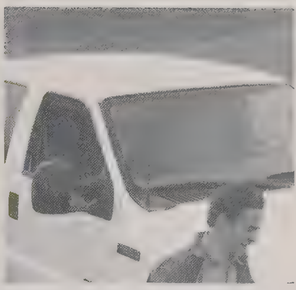
To move business forward, we provide traditional term debt and equity financing. FCC Ventures assists businesses in the fields of value-added processing, agricultural equipment, commercial scale primary production, agricultural biotechnology, forestry and others that have a positive impact in many different sectors. It's one of the few venture capital funds in Canada that focuses on the agri-food industry.

"The parents of students at École St. Joseph keep busy with various fundraising activities, including a spaghetti supper and bake sales. Through FCC's volunteer program, $500 was donated to our school. We're using it to buy new playground equipment such as soccer nets and basketball equipment." Mariette Vaillancourt, secretary of the St. Joseph Parent Committee and FCC Customer Service Representative in North Bay, Ontario.

FCC employees build communities in their own way. Outside of the office, we're individuals with unique passions. Some help with amateur sports, others raise money for worthwhile charities, build arts organizations and work with transition houses, food banks or Special Olympics.

We encourage employees to give back to the communities where we live and work. With the Employee Matching Program, employees give and FCC gives more. FCC donates another 50 cents to registered charities for each dollar employees raise. And we've formalized the kindness of volunteering with our Employee Volunteer Program.

In our global community, we remembered our neighbours across the ocean following the tsunami that devastated Asia and Africa in December 2004. FCC employees donated $27,730. With the matching donations from FCC and the federal government, $83,190 went towards rebuilding the lives of the millions of people affected by the tragedy. In addition, 50 employees stepped up to volunteer at the Regina Red Cross to assist with data entry, answering phones and collecting donations.

"I'm a firm believer that we must make a concerted effort to market more of our own products. Linking up with FCC's CanadianFarmersMarket.com is an excellent way to increase awareness of many products and producers. FCC should be commended for this initiative." Rod Potter of Century Game Park in Ontario and the fifth-generation Potter to live on his family land.

To tell the world about Canadian producers and products, we launched a new website, CanadianFarmersMarket.com in 2004. FCC customers, including Rod Potter, sell their products directly to customers in the world's biggest marketplace – the Internet.

"Agriculture plays an important role in environmental sustainability. Farmers adopt a range of good environmental practices, and these ensure agriculture's enduring viability and profitability. At FCC, we know the value of environmentally sustainable business practices. As a federal Crown corporation, we support the environmental pillar of Canada's Agricultural Policy Framework and it is our responsibility to ensure that our lending activities do not lead to misuse, contamination or other deterioration of the environment." Jan Cowie, FCC Environment and Legal Policy Analyst.

We're leaving a healthy environment for future generations. FCC looks at the environmental risks associated with lands offered as real property security. We lend to producers who want to enhance the environmental aspect of their operations. One way we can help promote and maintain a healthy environment for future generations is through the FCC Enviro-Loan. Our customers may enhance their environmental stewardship by making improvements and adopting environmentally beneficial practices when they construct, improve or expand their operations.

"While I don't think I was overly prejudiced beforehand, it's probably safe to say that I didn't really think about agriculture at all. And if I did, I'm sure I had a few notions about farmers as slow to change and anti-technology," says journalism student Eve Thomas. What she learned was that "most of them could rival a city stockbroker any day."

We're helping tomorrow's journalists gain a better understanding of agriculture. Yes, there are issues in agriculture, and there are also a lot of success stories seldom told. That's where the idea for Ag 101 on Highway 1 was born. We took four journalism/broadcasting students from Canadian colleges and universities on the road for a week to learn about agriculture. In addition, FCC offers AgriSuccess Business Planning Awards to students in agriculture diploma and degree programs across Canada.

“We believe in the power of relationships between our employees, customers, communities and business partners.”

Message from the President and CEO

Agriculture is a highly successful industry, fundamental to the lives of all Canadians. From coast to coast, the men and women involved in agriculture put food on our tables and add value to our economy in substantial ways. Together, agriculture, fishing and forestry account for $23 billion of Canada's gross domestic product.

The industry boasts incredible diversity. It encompasses primary producers, the input suppliers who serve them and value-added processors who turn our raw commodities into the highest quality food in the world.

Agriculture is dynamic and ever changing. This past year, the industry continued to offer new opportunities through increased value-added processing, growth of agri-tourism and new markets for speciality crops, to name a few. Producers seized these opportunities, finding new ways to succeed. Every time I meet with customers and stakeholders, I am amazed at their incredible resilience and innovation.

At FCC, we're proud to be a partner in the success of Canadian agriculture. In 2004, we continued our support strategy for customers in the beef and poultry sectors, working with individual producers to help them manage through another difficult year. Since May 2003 and the border closure, we have loaned $884 million to more than 7,000 beef customers.

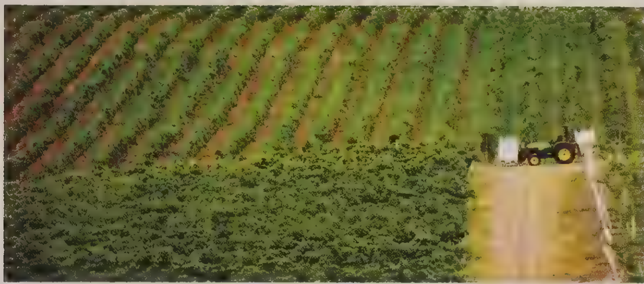
We proudly reaffirmed our support for our poultry customers following the avian flu outbreak in British Columbia and received positive accolades from the poultry sector. And we worked closely with our grain customers in Western Canada following an early frost.

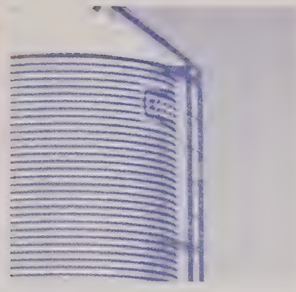
At the same time, we offered loans and business services tailored to agriculture's unique needs, from traditional debt financing to venture capital and education on sound management practices. In 2004-05, FCC provided $3.1 billion in new financing to producers and business operators, helping them grow, diversify and prosper. By March 31, 2005, our total loan portfolio had grown to $11.2 billion – a clear indication of our customers' success.

Many savvy producers, processors and others are examining how they can capitalize on consumer and market trends, building partnerships along the value chain, from inputs to outputs, increasing efficiencies, managing risk and intensifying marketing efforts.

At the same time, they're expanding. Economies of scale are driving consolidation in every sector and the gap between large and small operations is increasing. Bigger farms require larger capital investments.

At FCC, we're working hard to help provide the financing needed for industry growth. We listen to our industry partners and customers to understand their unique needs, and tailor our loans to suit those needs. Today, FCC offers 18 loans with a variety of deferred payment arrangements to fit different sectors and production schedules. As Canada's value-added sector has grown, we have developed specific loans to support agribusiness – on the input and output side of primary production. And, over the last two years, we have





developed our venture capital division, FCC Ventures, to help encourage the flow of equity capital into agriculture.

We know that managing today's larger, more complex farm and agribusiness calls for sophisticated management skills in areas such as finance, human resources and marketing. Operators who are able to run at top efficiency, make wise use of new technologies, research and meet market demands, and attract and keep top employees are most likely to grow, diversify and prosper.

Over the last year, FCC offered a range of new AgriSuccess workshops across Canada, focusing on financial management and human resource practices. We offered publications to help producers stay on top of the latest agriculture news and management trends. And we released new versions of AgExpert Analyst, an accounting and financial management package designed specifically for agriculture, and AgExpert Field Manager, a powerful tool to help farmers plan and track their crops and fields.

Every time I meet with a customer who tells me that FCC has made a difference and helped them to realize their dreams, I feel a tremendous sense of pride. I am often told that we are different as a company, that we "get it." That is why I would like to thank our 1,100 employees for their sincere commitment to Canadian agriculture. The experience we strive to offer customers would not be possible without these dedicated men and women, many acknowledged externally as experts in their fields. For the second consecutive year, we were named one of the top 50 companies to work for in Canada by the Globe and Mail's Report on Business and Hewitt Associates.

We were also recognized on Maclean's Top 100 Employers list. This is tangible proof that the internal climate at FCC is very positive, and helps define why our employees are so engaged with our customers.

We are committed to the long-term future of Canadian agriculture. Intergenerational farm transfer is a major issue in agriculture. We are taking a proactive approach to helping young farmers and we've developed a number of loans specifically for young producers. Young farmers, or those aged 18 to 40, make up $1.9 billion – or roughly 18 per cent of our total loan portfolio.

We are so proud of what our customers produce that we offer them free space on our website to showcase their products and services. We took journalism students on the road to educate them about agriculture. We're investing in the rural communities where our customers live and work with our new AgriSpirit Fund, which provides capital funding to community projects. And these are only some of the ways we are promoting the value of agriculture.

We believe in the power of relationships between our employees, customers, communities and business partners. Their commitment and passion provides inspiration as we constantly challenge ourselves to meet the changing needs of the agriculture industry.

We look forward to the opportunity to learn more, and to offer more in support of agriculture and rural Canada. Most of all, we look forward to a continued partnership with our customers, and to helping them find success and achieve their dreams.

John J. Ryan.

John J. Ryan

“Working together to promote a positive attitude about farming and encouraging young people to either get into or stay with the agriculture and agri-food industry paves the way for everyone’s success.”

Message from the Chair

Agriculture is a vibrant, knowledge-intensive and demanding industry. The changes in our industry are staggering, from changes in the size of operations and the dollars invested to changes in the types of products and services required to help a customer succeed.

FCC's core business is lending. However, today's producers need strong skills in human resource and financial management, and business and succession planning, to name a few. FCC now provides opportunities for customers to enhance their skills and grow their farm or food operations. The Board strongly supports these initiatives.

The Board of Directors oversees the operations of FCC. We lead decisions regarding the corporation's strategic direction and ensure high levels of accountability, openness and integrity. We are committed to ensuring that FCC remains at the forefront of good corporate governance practices in Canada.

This year, the Board established a Nominating Committee and approved a new Board Charter and Guidelines, a new Code of Conduct for employees and Directors, and reviewed and revised the Charters of all of its committees. The Board also conducted a compliance review of its Audit Committee to ensure it is fulfilling its responsibilities.

The Board has an active role in overseeing the performance of FCC, while at the same time empowering the Senior Management Team and all employees to do what they do best – serve Canada's agriculture and agri-food industries.

FCC fulfils its mission and public policy role by offering loans and services that support and grow agriculture. We serve customers through 100 offices in primarily rural Canada and provide service in both official languages.

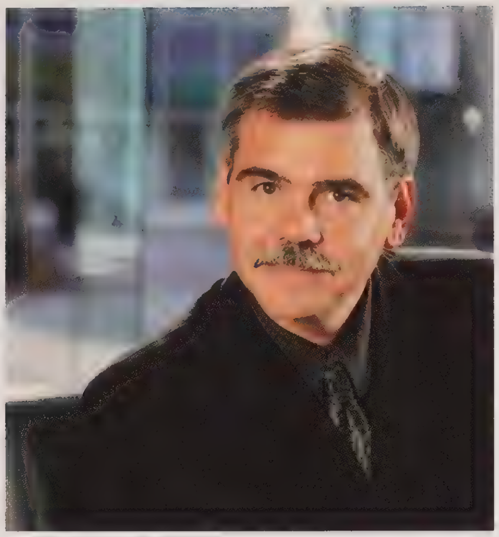
FCC is a strong corporate citizen. Our employees are devoted to Canada's rural communities. We demonstrate our commitment to make a difference in communities coast to coast through donations of money and time. The FCC AgriSpirit Fund is another exciting endeavour. Contributing to projects across our country will benefit rural residents and communities for years to come.

Agriculture is an industry built on partnerships. Working together to promote a positive attitude about farming and encouraging young people to either get into or stay with the agriculture and agri-food industry paves the way for everyone's success.

On behalf of the Board of Directors, I sincerely thank all 1,100 FCC employees for the passion and excellence demonstrated each day. The Board recognizes your efforts at work and as community volunteers. We applaud your dedication to our customers, partners, suppliers, vendors and all others who earn a living from agriculture.

Respectfully submitted on behalf of the Board of Directors,

Rosemary Davis



“Canada succeeds when all of its parts are strong, when we have not only a strong urban Canada but also a strong rural Canada.”

Message from the Minister of Agriculture and Agri-Food

I am delighted to have this opportunity to congratulate Farm Credit Canada for over four decades of service dedicated to the well-being of Canadian producers.

In my capacity as Minister of Agriculture and Agri-Food, my focus is clearly on farmers and farm families. The Government of Canada is committed to creating an environment that allows producers to earn a profitable living and that allows rural communities to remain sustainable. Canada succeeds when all of its parts are strong, when we have not only a strong urban Canada but also a strong rural Canada.

Since 1959, Farm Credit Canada has contributed enormously to the creation of an environment in which farmers and agribusiness can flourish. The products and services you offer are as varied as the producers who use them, ensuring that all the financial and business needs of those working in agriculture are met.

Agriculture and Agri-Food Canada is also committed to creating opportunities for farmers to be profitable and, like you, we are making it a priority to ensure that Canadian farmers have the right advice and tools to make sound business decisions. Together, our efforts will ensure that Canadian farmers and our agriculture industry continue to be world leaders in production and in sustainable practices.

I applaud your dedication to agriculture and the people for whom agriculture is more than just a business, but a way of life, and look forward to your continuing efforts to support rural Canada and Canadian agriculture.

The Honourable Andy Mitchell
Minister of Agriculture and Agri-Food

Operating environment

FCC proactively monitors the agriculture and financial services industries. Our deep understanding of issues and opportunities facing those involved in agriculture drives the creation of innovative ways to help customers succeed in this increasingly complex industry. This section highlights key aspects of our operating environment over the past year.

Agriculture

FCC is focused on agriculture, a key contributor to the national economy. Whether harvesting forage, seed and grain, producing livestock or dairy products or operating a winery – the fruits of farming touch every Canadian. Producers, growers, ranchers, suppliers and processors participate in an increasingly complex industry, using sophisticated management practices and an ability to predict trends and serve new markets. Such business management expertise is critical to long-term success. FCC is addressing this need through an array of flexible financing and business services – including training – that extend beyond the corporation's traditional lending activity.

According to Statistics Canada, the median age of farm operators in Canada increased from 47 in 1996 to 50 in 2001. Over the next decade, as farms are transferred to a new generation, more than $50 billion in assets is expected to change hands.

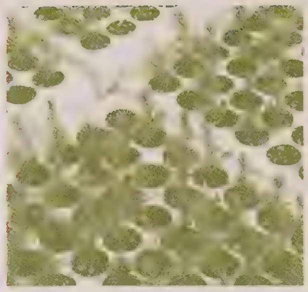
The Bovine Spongiform Encephalopathy (BSE) saga remains top of mind. Since the May 2003 discovery of an infected animal in Canada, BSE, or mad cow disease, has created a serious problem for those involved in producing and processing Canadian beef. Other sectors, including sheep, goats, deer, elk, bison and llamas, have also been affected by a closed border. The dairy industry was affected as dairy farmers sell their cull and replacement animals into the same market as beef cattle. Other value-added businesses also have been affected.

With a closed border, Canadian exports of live cattle and beef dropped to zero from an average monthly export of live cattle and beef of $134 million and $175 million respectively.

Avian flu struck the poultry sector in 2004. To stop its spread, more than 17 million chickens, turkeys, ducks and geese were depopulated in British Columbia's Fraser Valley. Producers faced a lot of uncertainty during this period. FCC responded by allowing poultry customers to defer payments to support them through this crisis.

When disasters such as BSE or avian flu occur, FCC proactively contacts customers to develop plans that help them manage through challenging times. This provides an opportunity to explore flexible solutions such as payment rescheduling or interest-only payments.





We believe in the long-term viability of the beef sector and continue to lend money to our beef customers.

Farm cash receipts dropped $5 billion between May 2003 and November 2004, primarily due to livestock markets and lower grain prices. Meanwhile, the average net worth per farm has increased by 15 per cent since 1999.

As concern for the environment moves higher on the public agenda, regulations are becoming more stringent. Some operations will require additional capital to comply with new environmental regulations.

Financial services industry

Like agriculture, the highly competitive financial services industry is affected by change on many levels. Recent corporate scandals have brought about key financial reforms across North America. Potential mergers, changing legislation, increasing regulation, volatile markets, changing demographics and technology are having an impact. The effects of Bill C-8, reforming Canada's financial services industry, will also impact the marketplace.

Technology is shaping consumer demand and business models. Financial institutions provide customers with access to information and services 24 hours a day, seven days a week – in person, by phone or through the Internet. FCC has determined that field staff located in rural areas will remain a dominant service channel. This is supported by a call centre and Internet access.

Statistics Canada indicates that farm debt outstanding rose to $47.7 billion at the end of 2003, continuing the steady upswing since 1993. Farm debt in Canada increased 22.3 per cent over the previous five-year average. In 2003, all provinces except Newfoundland and Labrador increased their debt loads.

Most non-mortgaged debt was owed to chartered banks (59.1 per cent) and credit unions (22.8 per cent). In 2003, FCC's market share of non-mortgaged lending was 5.1 per cent. Major holders of mortgaged farm debt in 2003 were FCC (37.9 per cent), chartered banks (26.2 per cent), private individuals (15.0 per cent), credit unions (8.5 per cent) and provincial government agencies (6.0 per cent).

International considerations

Of ongoing interest are changes in the value of the American and Canadian dollar and each country's interest rates, since the United States is Canada's primary trading partner.

Global trade issues continue to place pressure on Canadian producers to increase efficiencies and competitiveness. New competition for Canadian products is emerging.

The current round of World Trade Organization agriculture negotiations is expected to address issues associated with supply management systems, national trading organizations and subsidies. When these negotiations are finalized, it will be important to understand the effect on Canada's agriculture industry.

The United States Farm Bill will be in effect until 2008. The bill will increase federal spending on agriculture and food substantially and is expected to result in greater production, higher U.S. exports and lower world prices.

The role of government in trade continues to expand following the September 11, 2001 terrorist attacks on the United States and heightened global conflict. Foreign trade will continue to be more expensive because of higher transportation costs and border costs and delays (more than 80 per cent of Canadian exports are to the United States).

The international Kyoto Protocol calls for reduced production of greenhouse gases. How this will affect the Canadian economy, and specifically agriculture, has yet to be determined.

Balanced Scorecard 2004-05

Objectives, measures and targets

Every year, FCC measures progress toward achieving corporate objectives through its balanced scorecard, which translates vision into corporate objectives, measures, targets and initiatives. Each objective falls into one of four different balanced scorecard perspectives: customer, people (employees), internal capability* and financial/shareholder.

The balanced scorecard assumes that financial outcomes can only be achieved if customers are satisfied. To satisfy customers, internal capabilities such as processes and systems must be in place. Ultimately, all objectives are interconnected and deliver on FCC's desired outcomes: financial sustainability and industry success.

* changed from "service" to "internal capability" in 2004

FCC Balanced Scorecard 2004-05 Results

Customer – create solutions for customer success

Corporate Strategy Statement

FCC will sustain high customer loyalty, grow its loan portfolio, invest in venture capital and deliver products and services to enhance producer and agribusiness management practices in order to support agriculture in Canada.

Corporate Measure

Customer Loyalty Index: Minimum of 4.24*
Loan Portfolio Growth: Average annual growth rate of 7.8% over five years
Venture Capital Investments: $78 M invested through 2008-09
Business Services Growth
Overall Reputation Index: Maintain at 134**

Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Grow returns by serving customers.	• Targeted Agribusiness and Farm Finance portfolio growth.	• Disbursement targets: 2004-05: $2.17B.
Stimulate access to venture capital funds.	• Established Venture Capital fund with an active portfolio. FCC will allocate additional capital based on performance of the portfolio.	• 50% of investments will carry a current yield; for every dollar invested by FCC Ventures, an additional $1.3 will be attracted to the industry. • Cash disbursed for capital investments: 2004-05: $25.0M. • Interest and fee revenues: 2004-05: $1.8M.
Develop processes to enhance co-ordination of business lines.	• Strengthen the National Business Plan.	• 2004-05: Clearly defined sales and marketing roles. Integration of all business lines, geographic and sector strategies.
Improve customer choice by developing alternate delivery channels.	• Targeted, diversified Alliance*** portfolio growth.	• Alliance disbursements: 2004-05: $558M.



2004-05 Results

- Farm Finance: $2,097.8M
  Agribusiness: $519.1M
  Total: $2,616.9M

- In 2004-05, FCC ventures placed $22.3M which includes a $5M acquisition facility that has not yet been drawn. $41.0M in co-investment funds were attracted, for a co-investment ratio of 2.4:1. Interest and fee income was $2.2M.

- Clear definition of sales and marketing roles is complete. Significant improvements were made to the National Business Plan, including priorities for each business line. The plan was renamed the Market Development Plan and is the strategy driving the technical execution of market development activities in 2005-06 by geographical and customer segment. A new Integrated Marketing Communication strategy map was developed to enhance enterprise-wide co-ordination of market development and product solution initiatives with those of brand and communication.

- Alliance disbursements: $450.3M; year-end Alliance disbursement results are below target as a result of ongoing BSE challenges.

*Customer Loyalty Index (CLI) includes customer satisfaction and perception of value obtained from FCC services. The maximum possible score is 5.77.
**FCC's reputation index is very good at 134, which the corporation seeks to maintain.
***Targets for 2004-05 were established based on historical disbursement levels prior to recent market distortions such as BSE.

FCC Balanced Scorecard 2004-05 Results

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Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Improve customer choice by developing alternate delivery channels.	• Customer Service Centre (CSC) firmly established as an alternate channel with direct lending.	• CSC Alliance loan processing: 2004-05: $558M. • CSC dealer and retail lending: 2004-05: $120M. • CSC inbound calls: 2004-05: 50,000. • CSC outbound calls: 2004-05: 15,000.
	• Establish e-business as a delivery channel.	• Alliance e-solutions: 2004-05: Loan origination; NEDFP[1] site. • Customer e-solutions: Online loan application for scorecar lending and lending process workflow Registered users: 2004-05: 11,000.
	• AgExpert: integrated and profitable AgExpert business unit.	• AgExpert revenue: 2004-05: $2.40M. • Unique AgExpert customers: 2004-05: 17,300 Target adjusted to 15,900[2].

[1] NEDFP – National Equipment Dealer Finance Program

[2] Unique AgExpert Customers target was adjusted to 15,900 customers to align with $2.40M AgExpert revenue target, which was previously revised

2004-05 Results

- CSC Alliance loan processing: $450.3M; disbursements were below target as explained on page 21.
- CSC dealer and retail lending: $145M.
- CSC inbound calls: 59,268 calls; average speed of answer: 10 seconds.
- CSC outbound calls: 11,185 calls; outbound calls were slightly below target but the total number of customer contacts managed by the CSC was 82,447 versus the anticipated volume of 75,000. In addition to inbound and outbound calls, the CSC completed 11,994 additional customer administration tasks.
- Improvements to the Alliance portion of the FCC website included improved functionality to online disbursement requests and the online reporting pilot project. Development of the Alliance, NEDFP and customer portals has been incorporated with the enterprise integration project.
- Customer e-solutions: 13,649 users registered.
- AgExpert revenue: $1.7M; AgExpert revenues increased by 42% over 2003-04 revenues. However, sales were below the target of $2.40M.
- Unique AgExpert customers: 15,600.

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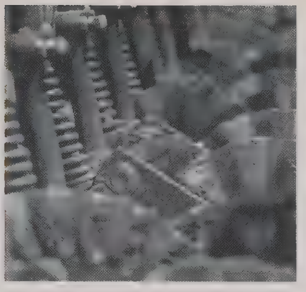
Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Broaden revenue mix with new products and services.	• AgriSuccess: A comprehensive suite of training and management information offerings to enhance producer and agribusiness management practices.	• AgriSuccess participants: 2004-05: 1,500. • AgExpert training participants: 2004-05: 1,700. • Advanced Farm Manager training: 2004-05:100 participants annually. • AgExpert newsletter distribution[3] : 2004-05: 15,000. • AgriSuccess Journal distribution: 2004-05: 12,000.
Introduce lending products for new and traditional segments.	• Insurance: Full suite of insurance products to complement FCC's core business product suite.	• Life and Accident Insurance sales: 2004-05: $9.92M 2004-05: Develop and launch three new insurance offerings: insurance for Advancer Loan; term insurance (referral); group benefit plan.
	• Innovative and actively managed product suite.	• Product suite: 2004-05: Product pricing strategy implemented as per plan. • New product penetration business plan targets achieved. Target of 43% of total Farm Finance and Agribusiness approvals made on products developed within the last five years.
Implement Customer Relationship Management (CRM).	• CRM implementation and integration into ongoing operations.	• 2004-05: Implement CRM Wave 2 and long-term structure in place.

[3] AgExpert newsletter was renamed the AgriSuccess Express e-newsletter


2004-05 Results

- AgriSuccess participants: 1,626.
- AgExpert Training participants: 2,120.
- Advanced Farm Manager training participants: 40. Marketing plan is in place for next fiscal year, to target the offering of this intensive course.

- AgExpert newsletter distribution: 14,498.
- AgriSuccess Journal distribution: 13,087.

- $9.76M total premiums received.
- Term insurance referral and group benefit plan projects were removed from the 2004-05 initiative list due to other corporate priorities.
- Insurance product for Advancer Loan was designed and premium rates set. The planning phase of the auto premium generator project was completed by IT, with the execution phase slated for completion in early 2005-06. This application enables FCC to sell and administer creditor insurance for the Advancer Loan product. The Advancer Life Insurance will be released in May 2005.

- Product pricing strategy completed with recommendations for fiscal 2005-06.

- 45.9% uptake of total Farm Finance and Agribusiness approvals were made on products developed in the past five years.

- The introduction of an enterprise integration project altered CRM targets as follows: the focus for 2004-05 was to optimize CRM Wave 1, focusing on process improvement and data integrity. Wave 1 optimization was implemented successfully. Additional user training and standardization of procedures were also implemented. Wave 2 pre-planning analysis concluded that efficiencies will be gained by incorporating further improvements into the enterprise integration process portal projects.

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Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Ensure customers perceive value in the relationship.	• Develop internal marketing research capacity to enhance understanding of customers. • Improve value-added service levels and capacity with a customer-driven focus.	• 2004-05: Every customer with a new loan surveyed; Every exiting customer surveyed. • 2004-05: Central reporting for Post-Loan and Exit Survey. • Successful, on-budget completion of Customer Loyalty Index (CLI).
Grow awareness with target publics.	• Design quantifiable metrics that reveal impact of brand/communication activities on sales and customer loyalty. • Increase reputation through the innovative use of community investment funding and strategies aimed at non-customer stakeholders.	• 2004-05: Develop and implement corporate reputation action plans. • 2004-05: Improve Corporate Reputation Index (CRI) re: "contribution to community."
Grow the value of FCC Brand Equity.	• Implement public campaign to foster pride in agriculture. • Full implementation of national speakers bureau.	• 2004-05: Implement national advertising campaign. • 2004-05: Increase visibility with target audiences.



2004-05 Results

- Process for Post-Loan and Customer Exit Survey activated. The national research panel, FCC Vision, was activated and was used to explore loan renewal preferences. The panel now has over 2,000 members.

- Central reporting was activated. At year end, 6,282 current and former customers had responded to the Customer Experience Scoreboards. In order to implement action plans to improve satisfaction, sales management is notified about survey scores that fall below given satisfaction thresholds.
- CLI was not conducted in 2004-05 due to budget restraints.

- An integrated marketing communication strategy was developed and multi-divisional planning conducted. This included the exploration of measurement options for corporate social responsibility and corporate reputation, planning sessions, developing an integrated communication strategy and calendar of activities. A draft value proposition and internal benchmark survey were prepared.
- A total of $655,000 was invested in communities across Canada (including World Food Day, First Aid on the Farm events, Holiday Cheer campaign, Canada Agricultural Safety Week support, FCC 4-H National Scholarship Program and other community investment initiatives).
- FCC lent a helping hand in communities through the Employee Volunteer and Matching Programs, including an employee-matching donation of over $27,000 in support of tsunami aid.
- Over 489 AgriSpirit Fund applications were received from community groups across Canada and 38 projects were chosen.
- CRI was not conducted in 2004-05 due to budget restraints.

- Based on public consultations, the program was adjusted as follows: creation of website to promote customer products and profiles, journalism student education in agriculture and future enhancements to FCC's involvement in Agriculture in the Classroom.
  - CanadianFarmersMarket.com website was launched in January 2005. By the end of fiscal 2004-05, 87 customers had more than 118 products registered on the website.
  - Ag 101 on Highway 1 tour took place in February 2005 and was very successful.
  - The Agriculture in the Classroom organization renewed funding to develop curriculum that is used in schools.
- Speakers Market launched internally in September 2004 with speech templates, speaker guidelines and a speaker roster database. A feedback survey was also conducted.

*Customer Loyalty Index (CLI) includes customer satisfaction and perception of value obtained from FCC services. The maximum possible score is 5.77.

**FCC's reputation index is very good at 134, which the corporation seeks to maintain.

FCC Balanced Scorecard 2004-05 Results

People – unique people leading our success

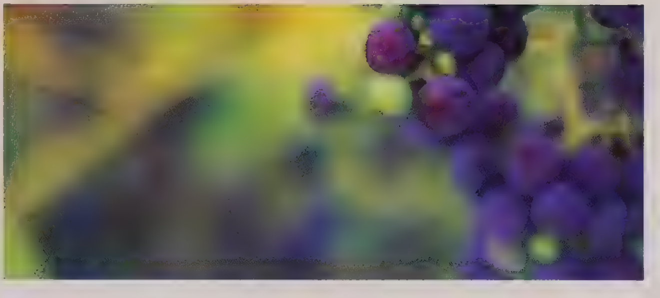
Corporate Strategy Statement

FCC will be a top company to work for in Canada, with high employee engagement and a culture of innovation and learning as measured by the People Index.

Corporate Measure

The People Index (annual Employee Engagement Survey administered by Hewitt). Employee engagement score will move from 69% (2003-04) to 76% in 2008-09.

Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Enhance leadership and employee engagement at all levels in the organization and build a learning organization.	• Enhance the workforce plan, including career paths, diagnostic tools and employee development plans.	• 2004-05: Identify 10 additional candidates for Leadership Development; complete workforce plan.
	• Implement integrated and improved internal communication strategy.	• 2004-05: Increase employee engagement to 70%.
Create and share knowledge.	• Foster a learning environment that helps employees to excel as leaders in future business practices and technologies.	• 2004-05: Implement Building Future Leaders initiative.
	• Measure and share output from 10 Communities of Practice (CoPs).	• 2004-05: Launch new CoP re: additional agricultural sector. Launch new CoP in Credit Risk/Commercial Lending.
	• Keep Knowledge Management (KM) intranet content fresh and responsive to user needs.	
Enhance Risk Management expertise.	• Enhance credit risk knowledge, tools and processes.	• 2004-05: Produce four agribusiness enterprise guides.
Make it easy for employees to do business.	• Align corporate capacity with business growth requirements.	• 2004-05: Implement corporate capacity planning.



2004-05 Results

- This year, eight additional employees were invited to participate in the Leadership Development Program for a total of 23 participants. The selection of new candidates was guided by workforce planning results and the identification of corporate areas of greatest need.
- The Workforce Plan was completed.
- Annual Employee Engagement survey completed in June 2004. Employee engagement score increased from 69% to 81%. This significantly exceeded 2004-05 goals.

- Framework for Leadership Learning at FCC was established and includes delivery of the Supervisory Development Program, Banff Centre Leadership Excellence sessions and the design and pilot of a new Focus on Results module. The framework also includes cultural transformation training and executive development. The Leadership Community of Interest continues to meet monthly and an informal network of those in supervisory roles has been established to share resources and information.
- The Agribusiness Finance CoP was launched successfully in October 2004.

- CoP effectiveness and KM outputs were measured using the third annual CoP benchmark measure (results improved in all areas), intranet tracking of access to KM and CoP content, feedback forms and a series of qualitative focus groups. These are key tools in KM's commitment to continuous improvement.

- Four new enterprise guides were completed: equipment dealers, feed mills, food processing and abattoirs. All existing guides, including vineyards and wineries, and greenhouses, were updated for posting on the intranet.

- Capacity planning software was selected and installed (including time tracking, resource management and scheduling functionality). Testing, user training and a controlled deployment phase were completed as planned.

FCC Balanced Scorecard 2004-05 Results

Service – make it easy for customers to do business with us

Corporate Strategy Statement

FCC strives to be easy to do business with – as measured by its Customer Experience Index.

Corporate Measure

Customer Experience Index =
Service Provision Index + Customer Turnover Measure

Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Ensure appropriate risk management practices in all areas.	• Comprehensive suite of portfolio risk management tools that reflect leading-edge practices, including improvement of credit risk tools and processes; update audit programs for consistency with changing environment/industry standards.	• 2004-05: Initial implementation of Portfolio Risk Management tools.
Improve integration of business information systems.	• Improve service levels and capacity with customer focus. • Implement core systems integration to ensure seamless installation of major systems. • Replace loan servicing system.	• 2004-05: Establish high level project sequencing; assess internal versus external resource requirements. • 2004-05: Initiate project based on outcome of high-level project sequencing and resource capacity.
Enhance successful strategy integration and execution.	• Fully implement project portfolio management. • Align corporate capacity with business growth requirements.	• 2004-05: Create corporate project work plan. • Implement revised activation process.
Optimize productivity through continuous process improvement.	• Align Information Technology system development and implementation with corporate prioritized project list. • Broaden Business Process Re-engineering (BPR) to encompass continuous improvement and innovation.	• Implement capacity planning tool. • Implement BPR recommendations : Translation and Official Languages, Administration.
Build partner/alliance systems infrastructure and applications.	• Expand/refine service delivery model for partners.	• 2004-05: Develop Alliance e-solutions (online portal). • Develop online transactional capability.



2004-05 Results

- A comprehensive suite of leading-edge tools was developed to help FCC manage risk: Application Scorecards, Risk Scoring and Pricing System (RSPS), Strategic Credit Risk Model, Loan Loss Allowance Model, Portfolio Vision, and the Portfolio Diversification model. These tools are continuously evaluated to ensure they reflect industry best practice and appropriately quantify risk. This year, RSPS, Application Scorecards, value-added lending pricing and loan loss allowances were evaluated and reviewed and the Portfolio Vision and Diversification Strategies were updated.

- Phase 1 of the enterprise integration project consisted of a high level analysis phase, which resulted in a multi-year strategy and roadmap. Several initiatives to optimize integration were defined and started. Enterprise integration initiatives will ensure projects are integrated, resulting in a seamless and enhanced customer experience across all channels, business units and people.

- Vendor decision deferred pending completion of the Solution Sales Origination Process redesign. Vendor selection is now targeted for 2005-06. Replacement of loan servicing system targeted for 2007-08.

- Project Portfolio Management processes and templates revised to incorporate requirements of enterprise integration project. Projects on the 2004-05 corporate work plan were activated. The registered project list and corporate work plan for 2005-06 were approved and the initial sequencing of initiatives was completed.

- Implementation of the capacity planning software (phase 1) is progressing as planned.

- BPR is now part of the Enterprise Integration and Innovation (EII) division. BPR's methodology, along with continuous improvement, change management and innovation, are components of the business process methodology going forward. Loan Maintenance recommendations are being implemented and, where appropriate, integrated with related EII initiatives. Translation and Official Languages, and Administration Services recommendations were implemented, with some initiatives continuing into 2005-06.

- Alliance online portal project requirements and functionality have been incorporated into future enterprise integration and IT projects.
- Online reporting for alliance partners was rolled out, providing partners with the ability to access customer-specific reports through an online secure connection. Approximately 90 per cent of eligible partners are using online services.

FCC Balanced Scorecard 2004-05 Results

Financial success – the foundation of customer support

Corporate Strategy Statement

FCC will remain financially self-sustaining, through profit and operating efficiency, in order to grow its support for agriculture and customers.

Corporate Measure

Return on Equity (ROE): 2004: 10.74%, 2008: 12.49%
Debt-to-equity ratio: 10:1 or better
Efficiency ratio: under 45%

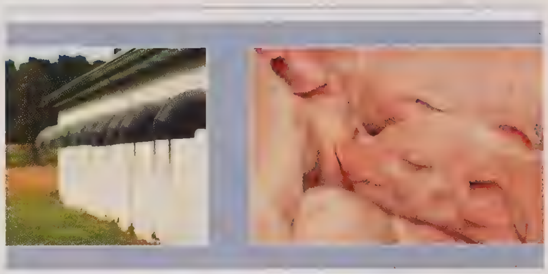
Corporate Strategies 2004-09	Strategic Initiatives 2004-05	Measures and Targets
Maintain self-sustaining independent growth.	• Implement systems and processes to improve profitability reporting and analysis.	• 2004-05: Improvements in profitability reporting and analysis
	• Diversify investors and funding sources. • Maintain corporate efficiency ratio by seeking internal efficiencies and rewarding them.	• 2004-05: Maximize margins. • 2004-05: Efficiency ratio: under 45%. • Return on equity (ROE) 2004-05: 10.74%. • Debt-to-equity ratio 10:1 or better.



2004-05 Results

- One of the major improvements involves technical upgrades to the PeopleSoft Financials system. Since the upgrade is not scheduled for implementation until 2005-06, improvements during 2004-05 focused on report design for implementation once the upgrade is complete. We commenced work to improve profitability reporting for alliances, products and customers.
- Funding from new investors: $212M.
  Funding from new funding instruments/sources: $740M (includes $212M from new investors).
- Efficiency ratio: 40.3%.
- ROE : 11.6%.
- Debt-to-equity ratio: 9.5:1.

Kolkman family



The customer experience

It's Thursday at the Gerica Pork Inc. farm in Monkton, Ontario and everyone is on their own path. Gerald Kolkman strolls down to the barn to check on their 300-plus sows while his co-owner and wife Veronica sets off down the road to her part-time nursing job. Their four children board the school bus.

This is the 30th year that Gerald has lived on this land. He rented the property from his father for a couple of years and started out with a 100-sow farrowing operation. He has steadily grown his business, and his family, ever since.

The farm has undergone changes through the years. The Kolkmans converted the barn to liquid manure, added finishing pigs, installed a liquid feeding system and increased the barn size on several occasions.

Today, Gerica Pork is a full farrow-to-finish operation with about 400 acres of crops.

FCC has been involved with the Kolkmans at every step, right from Gerald's first loan. "The human connection is very important," Gerald says. "I have always tried to surround myself with positive people who share my vision of how to go forward. You can't have a relationship with a machine or with a piece of paper. You need a person on the other end of the phone, someone who comes out to the farm to see what you're trying to accomplish. That's been FCC."

"With our largest expansion, FCC really believed that it was a good idea and a good investment. That's very positive," Veronica adds.

"Our goal is to build a strong relationship with our customers, to be part of their management team and help them have all the information they need to make the best decisions for their operation," explains Area Vice-President Dan Bergen. "We are committed to our customers, not just for the life of their loan but for the life of their operation and now even beyond that with succession planning. We want our customers to see us as integral to their operation."

"With our largest expansion, FCC really believed that it was a good idea and a good investment. That's very positive."

McLean family

Gary McLean, a 10-year customer who operates a lifestyle farm near Newport, Nova Scotia agrees. Gary, wife Patricia and their three children have a cattle and grain operation and run the Featherlite livestock trailer dealership for Nova Scotia. They also make time to operate a convenience store and gas bar. "You're not a number on a piece of paper at FCC," he says.

For the McLeans, FCC is a family matter. Their two sons, Scott and Mark, used the FCC First Step Loan to buy cattle and equipment. The loan is designed for new entrants to agriculture with a limited credit history.

"They were able to buy a few cattle and some equipment," says FCC Account Manager Bruce Bishop. "They knew they could handle repayment with their outside jobs. No matter what journey you go on, it all begins with one little step. They're young but they both have their feet on the ground, so this was the opportunity to start them growing their future."

"They didn't just wave us off and say, 'He's just a kid' or 'He's just dreaming.' They really looked after us," Scott and Mark say. "It was encouraging to have FCC show confidence in us."

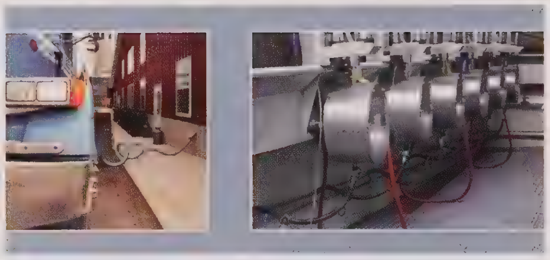
The First Step Loan and other loans and services at FCC have often been developed to address specific issues in an ever-changing agriculture industry.

"We listen to our customers and others involved in agriculture," says FCC Director of Product and Management Solutions Derwin Arnstead. "They tell us what they need to operate and we come up with something that will meet those needs and is flexible. In fact, more that 40 per cent of the business that FCC did in 2004 was through loans that didn't exist five years ago."

In addition to new loans, FCC made a decision to help producers and business operators enhance their management skills."Five years ago, we had no idea how much interest we would generate by developing a parallel business service side to FCC lending operations," says FCC Vice-President of Market and Product Development Lyndon Carlson. "What we knew is that to meet the challenges of the global marketplace, producers were working to become better managers and they wanted to learn more. We decided to help them with that."

" They didn't just wave us off and say, 'He's just a kid,' or 'He's just dreaming,' they really looked after us," Scott and Mark say. "It was encouraging to have FCC show confidence in us. "

MacNair family



FCC offers management training opportunities and publications through its AgriSuccess operations. The Advanced Farm Manager program is an intensive, eight-day session covering strategic business planning in small groups. One of its strengths is plenty of individual instruction.

Gerald Kolkman took time from his Ontario hog operation to attend a workshop on pork futures with Dr. Larry Martin from the George Morris Centre that was arranged by FCC. The course provided him with valuable background information.

"I was never familiar with terminology like an option or the futures market. I never felt comfortable," Gerald says. "When we went through 1998 and rock bottom prices for pork, people suddenly became acutely interested. I was one of them."

AgExpert farm management computer software is another example of FCC's extended services. The accounting software AgExpert Analyst helps track income, expenses and GST and prepare financial statements on a personal computer. This year, given the new federal Canadian Agriculture Income Stabilization (CAIS) program, AgExpert adapted the software so that producers could use the accounting program to easily and accurately track inventories and generate the forms needed for CAIS.

"Farmers have massive amounts of information to track and take into consideration long before seeding," explains FCC AgExpert General Manager Rob Schmeichel. "They're thinking about disease, weather, farm input costs, rotations and benefits of herbicide, pesticide and fertilizer. We've designed AgExpert Field Manager to track information needed to find the best answers to those questions."

Ken and Kara MacNair run Craiglea Holsteins, a dairy operation near Enderby, British Columbia. Kara has been using AgExpert Analyst software. "This program is really oriented to farms, to bookkeeping on a cash and accrual basis. It's working great. And any time we have questions, I love that there is a 1-800 number to call. At one point I found something that wasn't really working for me and told one of the guys, and right away he said, 'Ok, we'll look into this.' That's awesome," Kara says.

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François Tétreault

These are some of the ways FCC tries to make the customer's life easier. When times are difficult, this philosophy is even more important.

Dan and Hertha Penner appreciate having a lender stand by them during challenging times. They faced difficulties on their hog, poultry, grain and oilseed operation in Killarney, Manitoba in 2004 when the hog barn lost its contract. Eventually, they were able to get a new contract. In the meantime, FCC made payment adjustments to help keep the operation functioning smoothly.

Keeping up with increased production and investing in their business is a challenge for Les Grains Semtech. The St-Pie, Quebec seed producer has business lines of soybean seeds, wheat, barley and oat seed production, domestic grain marketing for animal feed and since 2000, an IP (identity-preserved) factory with production solely for soybean export.

Semtech owner François Tétreault says it's the people and knowledge that keeps him with FCC. "I don't just believe it, I know it. FCC employees are specialists in agriculture and the agri-food industry. They believe in this sector and those working in it. The proof lies in their programs and the flexibility of the programs offered."

In the coming year, FCC will be redesigning systems and processes to further enhance the customer experience. Creating consistency of service and allowing employees more time with customers is driving this change.

"Customers have told us that they want to have deeper relationships with our people," says Sophie MacDonald, Vice-President of Enterprise Integration and Innovation. "They want more face-to-face time and they want it to be easy and quick to find out about their financing. We aim to give them that." MacDonald is responsible for making change happen at FCC.

"While customers won't see a lot of the work that is taking place behind the scenes, as we move to a more integrated business where all parts work together more efficiently, customers will benefit from the results.

"FCC is in this for the long term. We believe in agriculture and in our customers."

" I don't just believe it, I know it. FCC employees are specialists in agriculture and the agri-food industry. They believe in this sector and those working in it. The proof lies in their programs and the flexibility of the programs offered. "

Ammie Van Straaten – Account Manager, Stratford, Ontario

The employee experience

"It's all about the people." That's what you'll hear over and over when you ask our employees and customers what they like best about FCC.

We have a committed team of more than 1,100 employees, located in towns and cities across Canada. They are dedicated to serving Canadian farmers and agribusiness operators. They stand behind the success of those customers.

Our employees are truly the foundation of everything we do at FCC. They have a deep knowledge of agriculture and a passion for helping Canadian producers and agribusiness operators realize their dreams. "Most of us have grown up in the agriculture industry. It's a lot easier to talk with your customers when you can sit there in the barn or across the kitchen table and discuss current trends in the marketplace or the day-to-day activities on the farm," says Ammie Van Straaten, an FCC Account Manager in Stratford, Ontario. Van Straaten grew up on a dairy farm in Ontario, and says after earning her commerce degree in agricultural business, joining FCC was an "easy choice."

"FCC is respected in the farming community because we're in the business of helping farmers out. I think they want to be with a lender that's going to help them through those hard times and not just stick with them through the really good times," she says. Van Straaten is typical of the people who make up the FCC family across Canada. She's diligent, knowledgeable and enthusiastic. And above all, she's committed to the future of agriculture and rural Canada.

For our employees, helping to build rural Canada is more than just a job. And it doesn't stop at the farm gate. In 2004-05, employees contributed more than 3,900 hours to FCC community projects, supporting hunger and rural safety programs. Our employees are also personally involved in a variety of community activities wherever they live across Canada.

$24,488 was raised by five FCC employee teams for Canadian Cancer Society's Relay for Life

There are countless examples of FCC employees going that extra mile. There's Bill Charlton, District Manager in Lindsay, Ontario, who served as the President of the Ontario Institute of Agrologists. The Certified Management Accountants of Canada awarded our Chief Financial Officer, Moyez Somani, the prestigious designation of "Fellow." George Klosler, an Account Manager in Woodstock, Ontario, was named President of the Canadian 4-H Council. In Rivière-du-Loup, Quebec, Claire Bérubé came up with an idea to have donated beef cut and packaged for food hampers, as part of FCC's Holiday Cheer campaign. She and fellow Account Manager Francis Boucher even donated their own beef.

Our Senior Vice-President of Strategy, Knowledge and Reputation, Kellie Garrett, is incoming Vice-Chair of International Association of Business Communicators Research Foundation at the international level and counsels parents of autistic children. And Matt LaRocque, a Customer Service Representative in Regina, is training as a top prospect for Canada's national cycling team. Truly, FCC people have a passion for achieving great things in all aspects of their lives.

Unleashing the passion and the unique talents of our employees is the key to our continued success, and that of our customers. Because of that, we're always looking at how we can make FCC a better place to work. In 2004-05, we continued to transform our culture, creating an environment that emphasizes teamwork, respect and a healthy balance between high performance and individual well-being.

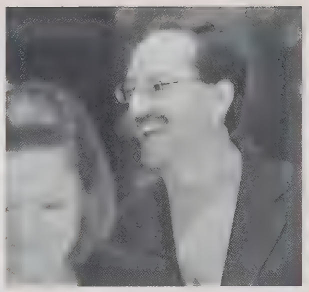
Our employees live by a set of 10 cultural practices that outline expected behaviours with colleagues, customers, partners, suppliers and stakeholders. The cultural practices emphasize being fully accountable for one's impact on business results and people, for delivering on promises, creating a safe environment for others to fully contribute and building committed partnerships with others.

What's the payoff? Better relationships between employees in all parts of the company. Employees who are even more inspired to reach beyond the ordinary. And, an even better experience for the customers we serve.

"For me, the cultural practices help remind us that our behaviour must be directly linked to being truthful and respectful towards others and ourselves," says Ste-Foy, Quebec District Manager Jocelyn Jeffrey. "I think these two words, truth and respect, are linked to most of the cultural practices. So that means being able to recognize them, know them and manage to integrate them into our work and into our way of dealing with people."

Marg Ellard, Director of Portfolio Accounting and Systems Support at FCC's Regina corporate office, has been with the company for seven years. She says the changes that are under way will have a huge impact. "I think this is probably the most important undertaking that FCC has been involved with since it opened its doors. I believe that in the end, it's going to transform how we deal with each other, how we deal with our customers, and ultimately impact our bottom line."

FCC Treasury has raised $13.1 billion in funding for agriculture.



Another key factor that impacts the bottom line is how efficiently employees feel they can do their work. FCC has grown and added new, more complex business lines and the demands on internal systems and processes have increased. Employees have told us that we need to streamline all the work that happens behind the scenes so it's easier to do business. They've told us that they want to spend more time with customers, and less time navigating technology, looking for information and filling out forms. We are developing a more seamless and efficient approach to doing business so all employees can focus on consistently giving customers great experiences.

FCC is committed to a true climate of bilingualism for our customers and employees. Canada's two official languages – English and French – receive equal status. Our employees view official languages as part of our public policy role, and as good business. Both languages are regularly spoken in our business and social settings.

We believe in continuous learning. Keeping up with the latest trends in agriculture or a specific discipline – whether information technology, marketing or accounting – is a key to high performance. At FCC, we support the learning needs of our employees by budgeting an amount annually – 11.8 per cent of our salary dollars in 2004-05 – to ongoing education.

We also offer in-house training. For example, we developed Learn the Business, a series of learning modules to help employees enhance their knowledge about FCC, our customers and the industry. And, every year, we host employee conferences across Canada to help our people better understand and focus on our corporate priorities.

To share our knowledge, we've formed communities of practice in FCC. These are groups of employees who meet during the year to discuss trends and issues in specific sectors. We have communities for agribusiness, aquaculture, beef, crops, dairy, forestry, greenhouses, pork, poultry, vineyards, operating environment, strategic planning and leadership.

Sometimes, the best way to learn is by doing. FCC employees have diverse opportunities to move around the organization into sometimes unfamiliar jobs, helping them build new knowledge and skills.

FCC Essex, Ontario staff raised $2,700 by racing carts around a track in support of Huntington's disease.



Take Sandy Kirtzinger, for example. She started with FCC as an Account Manager before getting an opportunity to move into the Regina corporate office as a member of the Business Process Re-engineering team. That experience allowed her to make the next step in her career – heading to Camrose, Alberta as a new District Manager in 2004.

"I think FCC has really opened their arms to improving the employee experience," Kirtzinger says. "They really go the extra mile to ensure that the employee has those skills to be able to do their job better or perhaps move on to a different part of the company and a different career."

"High-performing organizations are built by employees who feel valued, and are engaged and inspired by an environment that brings out the best in them," says President and Chief Executive Officer John Ryan. "That belief truly begins at the top. It drives all of our people practices and breathes life into our commitment to make FCC a great place to work."

"Those are factors in creating a superior employee experience. At the end of the day, it's the opportunity to work with great people and really make a difference in lives of rural Canadians that helps FCC stand out," says Vincent Giard, District Manager in St-Hyacinthe, Quebec. "The part of my job I appreciate the most is working with people, either working with my team or helping them work with customers. When I get up in the morning, I say to myself, 'It's going to be a good day.'"

Attention to people

How do we know we're creating a great "employee experience" at FCC? Here are a few indicators. We have a low voluntary turnover rate of 6.5 per cent. Even more impressive are the results of the most recent employee engagement survey, conducted by Hewitt Associates. The confidential survey includes a wide range of employee satisfaction measures from trust of senior management to happiness with pay and benefits. In the 2004 survey, FCC scored 81 per cent, up substantially from a score of 69 per cent in 2003. FCC was ranked 35th on the 50 Best Employers in Canada list, published by the Globe and Mail's Report on Business.

Software, loans and a lot more

Today's business manager has plenty to think about. There are production, personnel, marketing and risk considerations. Retaining good employees and having a succession plan are important. And there are retirement income, estate planning and tax implications to factor in.

To help navigate the complexity, FCC offers a full menu of agriculture financing and business management information, training and advice. Below are the highlights of what FCC offers, with full details available on the FCC website.

Software

AgExpert Analyst

With AgExpert Analyst accounting software, customers can enter income and expenses, track inventory and capital assets, complete GST and CAIS reporting, and produce financial statements.

AgExpert Field Manager

AgExpert Field Manager allows customers to track seeding/planting schedules, fertilizer applications, yield and herbicide use for their entire operation. All of this field and crop record-keeping and planning is available on a desktop PC and palmOne™ handheld.

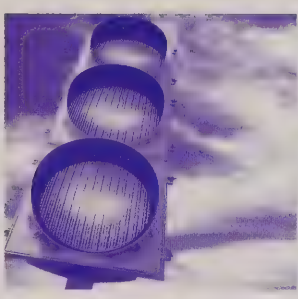
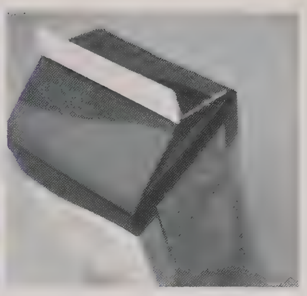
Learn from the best

Get the most from AgExpert with software training. There's an introductory course for just getting started, or advanced training to refine management techniques.

Ultimate Service

AgExpert customers can subscribe to receive annual support services providing them with daily access to knowledgeable specialists.

More than 13,000 people receive FCC AgriSuccess Journal.

Management training

AgriSuccess Workshops

Each AgriSuccess workshop focuses on a specific area of farm management such as financial, human resource, succession planning, estate planning and goal setting. AgriSuccess workshops go beyond theory. Participants leave with concrete steps to improve their operations – immediately.

Farm Financial Management – Know where you stand

Participants learn how to analyse their financial statements and ratios so they can make better management decisions and improve profitability.

Farm Financial Management – Develop your management accounting system

Participants learn how to prepare annual budgets using cash and accrual methods, set profit targets, interpret data and secure key supplier relationships.

Human Resource Management – Get the best

Participants learn how to recruit and find the right employees for their operation.

Human Resource Management – Keep the best

Participants learn how to inspire, support and keep good employees.

Advanced training

Advanced Farm Manager

In two, four-day modules, customers review many aspects of managing their farm operations, such as:

- Agricultural environmental review
- Environmental policies
- Visioning and strategic planning
- Human resource management
- Succession planning
- Financial accounting and management
- Price risk management
- Managing strategic alliances

Publications

It's especially important to check the lay of the land in a constantly changing industry like agriculture. Just because one plan led to success doesn't mean the same path will reap similar results. That's why FCC offers the following publications:

AgriSuccess Express. Every week, readers get the latest in agriculture news with our free electronic newsletter. It provides provincial, national and international news and trends that affect agriculture – and the bottom line.

AgriSuccess Journal. This free national farm management magazine published every two months offers tips and insights from other producers and industry experts.

Financing that fits

The right loan with a flexible combination of terms, security and payment schedule can make the road a whole lot smoother. Our loans are tailored to the needs of each customer.

Advancer Loan

Use this pre-approved, secured loan with the flexibility to re-advance funds at your discretion.

American Currency Loan

If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.

Capacity Builder Loan

Purchase quota or breeding livestock with pre-approved financing for up to one year and the option to capitalize interest.

Cash Flow Optimizer Loan

Invest funds that would normally go towards principal into other areas of your operation.

Construction Loan

Get interim financing for up to 18 months on construction projects including processing plants, cold storage and grain storage facilities. Use the money to build, and only pay when your project is done.

Enviro-Loan

Defer principal payments while constructing, improving or expanding your operation when you improve environmental facilities.

Farm Builder Loan

Defer your principal payments while you build, with interim financing for up to 18 months on construction projects.

First Step Loan

Use your post-secondary education to buy your first farm-related asset.

Flexi-Farm Loan

Defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.

Herd Start Loan

Take time after starting or expanding your livestock operation. Use your cash flow to grow your business.

1-2-3 Grow Loan

Manage your cash flow with interest-only payments until you get a return on your investment.

Opportunity Loan

Fund your agribusiness expansion with principal payment holidays for up to 12 months.

Payday Loan

Use your off-farm income to start or expand your farm business.

Performer Loan

Get rewarded with lower interest rates when your business achieves pre-set financial goals and ratios.

Plant Now – Pay Later Loan

Defer payments in your horticulture operation until your new plantings start to generate cash flow.

Spring Break Loan

Match your payment schedule to the forestry harvesting season.

Stop and Grow Loan

Defer principal payments at your woodlot as saplings grow into profits.

Transition Loan

Help the next generation purchase your property at retirement. Get the equity from your farm without risk.

Plan to protect

AgriAssurances offers insurance protection for individuals, farm families and the business. Protect it all – up to $1.5 million. Coverage is designed specifically for agriculture. Customers can have a custom-built plan with no broker or extra paperwork.

Loan Life and Accident Insurance
Get a traditional loan and cover the full loan amount or just a portion. Premiums never increase.

Key Person Insurance
Protects business by insuring the most valuable asset – key people.

Payment Protection Insurance
Provides a two-year holiday on insured loans in the event of an emergency.

Level Coverage Insurance
Family or business partners can keep the business going with reduced or eliminated loan payments.

Profit with partners

Through FCC Alliances, we partner with 850 equipment dealers and 60 alliance partners that serve agriculture across Canada, such as cattle co-ops and crop input retailers. Our alliance partners provide products that producers want, and we provide the financing to bring the two together.

FCC Ventures provides equity and quasi-equity financing to businesses such as commercial-scale primary producers, food processors, equipment manufactures and ag-biotechnology companies.

We partner with other venture capital companies to ensure that even more capital goes into agriculture. When we invest, others invest with us.

FCC online services

Our customers can check their entire loan portfolio online, including principal and interest split, insurance expense, details and history – 24 hours a day.

Because land is a major asset of agriculture production, we publish a Farmland Values Report twice a year. It follows trends in land values across Canada over the past 10 years. Local land valuation data is available free on our website.

Other tools include a Farm Finance Kit, updated commodity futures prices and five-day weather forecasts for any area.

FCC customers can sell to the world at CanadianFarmersMarket.com, an FCC site designed to let the world know about our amazing customers. The site showcases high-quality products, ranging from award-winning wines to game meat, beef, fresh roses, jams and jellies.

The FCC Customer Service Centre handled 72,667 inbound and outbound calls in 2004-05.

Management's discussion and analysis

Overview of the MD&A

FCC Management's Discussion and Analysis (MD&A) provides management's perspective on the corporation's performance in fiscal 2004-05, an outlook for 2005-06 and risk management activities. The MD&A is presented in five sections:



Caution regarding forward-looking statements

The MD&A includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary, and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates. To manage within this volatility management routinely reforecasts financial results, as early as the first quarter.

Vision and strategy

Vision: ***Visionary leaders and trusted partners – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada.***

In order to fulfil the vision, FCC must achieve financial success. It is important to generate a sufficient rate of return from operations to remain financially self-sustaining, as well as fund growth and strategic initiatives. The corporation must also have the capability to withstand the market fluctuations intrinsic to the agriculture industry while continuing to support our customers through all economic cycles. The corporation is growing and is expanding products, which now extend beyond financial products to business services offering specialized knowledge to our customers. The corporation has built a solid financial foundation, ensuring ongoing viability through sound financial and risk management practices.

Corporate measures

The following discussion outlines the key measures used to analyse financial success and performance against strategic objectives:

Portfolio growth: In order to generate a sufficient rate of return, we must grow our number one revenue-generating asset – our portfolio. There are a number of factors contributing to portfolio growth, including net disbursements, loan maturities, loan renewals and prepayments. To assess performance and opportunities, we focus primarily on net disbursements, which is the largest contributor to portfolio growth. Principal Not Due (PND), the principal balance owing on loans, is used to assess the growth between business lines, geographic areas and enterprises. It represents the principal balance only and excludes items such as arrears and interest accruals that are included within loans receivable.

Credit quality: In conjunction with portfolio growth, we assess the credit quality of the portfolio to determine the amount of allowance for credit losses that is required based on the risks within the portfolio and the industry. Loans in arrears and impaired loans are important indicators of risk within the portfolio. The level of allowance required determines the provision for credit losses, which is the expense charged to the income statement.

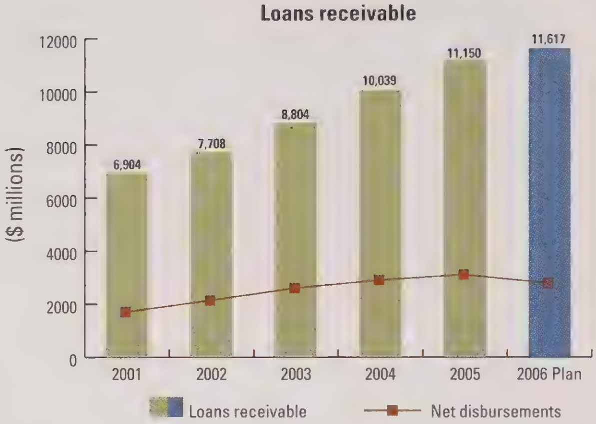
Efficiency and cost management: The net interest income remaining after deducting the provision for credit losses must cover administration expenses. We measure cost management performance using the efficiency ratio, which is the percentage of each dollar of net interest income required to cover administration expenses.

Financial results: Key measures used to assess our financial strength and success towards achieving our corporate vision include net interest income, net income, return on equity and debt-to-equity ratio.

Portfolio growth

Lending activity

FCC's portfolio experienced growth for the 12th consecutive year. The 2004-05 growth rate was 11.1 per cent. Loans receivable grew from $10,039 million in 2003-04 to $11,150 million in 2004-05 and generated $613 million in interest income. The largest contributing factor to the growth in loans receivable was net disbursements of $3,067 million, $205 million higher than the previous year. An additional factor in the growth was a renewal rate of 97.6 per cent, which was 1.1 per cent higher than 2003-04. The portfolio growth was offset somewhat by prepayments of 6.6 per cent of opening loans receivable, which was 0.1 per cent higher than last year.



Performance against 2004-05 plan and outlook for 2005-06

The plan for loans receivable in 2004-05 was $10,738 million. Actual results reached $11,150 million, an additional $412 million due to higher than planned net disbursements and renewal rate and lower prepayments. We expect loans receivable to grow by 4.2 per cent to $11,617 million in 2005-06. The slowdown in growth of the portfolio for 2005-06 is due to lower planned net disbursements, a slightly lower renewal rate and an increase in prepayments. A number of issues are negatively affecting the agriculture market and are expected to slow the demand for credit.

	2006 Plan	2005	2005 Plan	2004
Loans receivable ($ millions)	11,617	11,150	10,738	10,039
Net disbursements ($ millions)	2,745	3,067	2,724	2,862
Renewal rate (per cent)	96.0	97.6	95.0	96.5
Prepayment rate (per cent)	7.5	6.6	8.0	6.5

Lines of business

FCC lending activities are divided into three lines of business:

Farm Finance is defined as financing provided to farms that produce raw commodities, eg. crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; it also includes value-added agriculture operations of less complexity and scope than those categorized as Agribusiness.

Agribusiness includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities; businesses on the input side of primary production that supply materials or services to producers such as equipment dealers, cattle co-operatives and input suppliers; and value-added large, commercial farming operations.

Alliances are relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded service.

We lend to primary producers through all three business lines. In 2004-05, primary producers made up 91.2 per cent of total net disbursements, up from 90.4 per cent in 2003-04. Primary producers made up 98.1 per cent of Farm Finance net disbursements, 56.3 per cent of Agribusiness net disbursements and 99.6 per cent of Alliance net disbursements. Lending to primary producers continues to be our focus as we expand our product offerings to meet industry demands.

PND and net disbursements by line of business

Farm Finance

Farm Finance PND grew by 10.3 per cent, from $8,014 million in 2003-04 to $8,843 million in 2004-05. Net disbursements increased slightly from $1,991 million to $2,098 million in 2004-05. Farm Finance net disbursements as a percentage of total net disbursements decreased from 69.6 per cent to 68.4 per cent due to the substantial growth in the Agribusiness and Alliance business lines. The Western, Prairie, Atlantic and Ontario areas saw increases in Farm Finance lending while the Quebec area experienced a decrease. The cash crops enterprise contributed the largest increase in net disbursements for the Farm Finance business line.

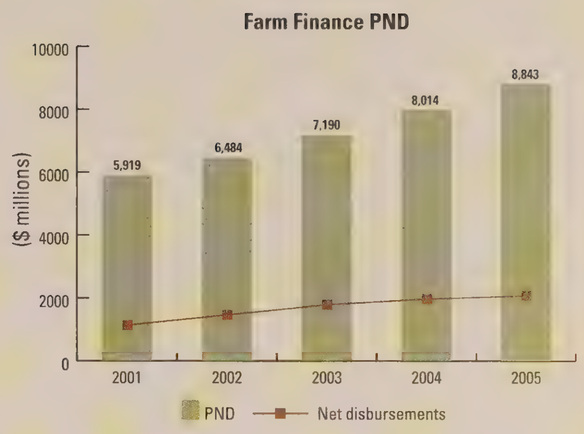
Agribusiness

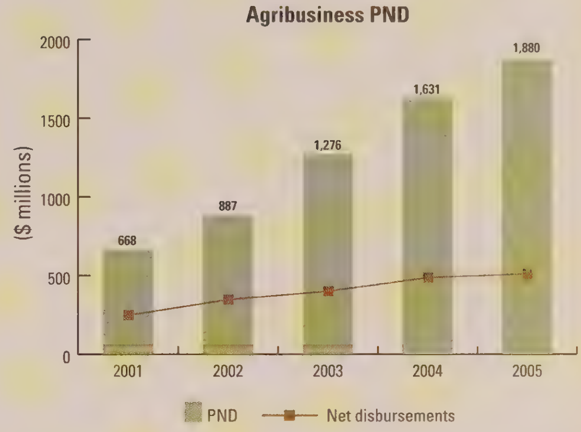
Agribusiness PND grew by 15.3 per cent, from $1,631 million in 2003-04 to $1,880 million in 2004-05. Net disbursements were up from $496 million in 2003-04 to $519 million in 2004-05. The largest increases in Agribusiness net disbursements were in the Atlantic, Quebec and Western areas and in the poultry and cash crop enterprises. The Prairie area had a decrease in disbursements, but maintained a similar portfolio level over the previous year.

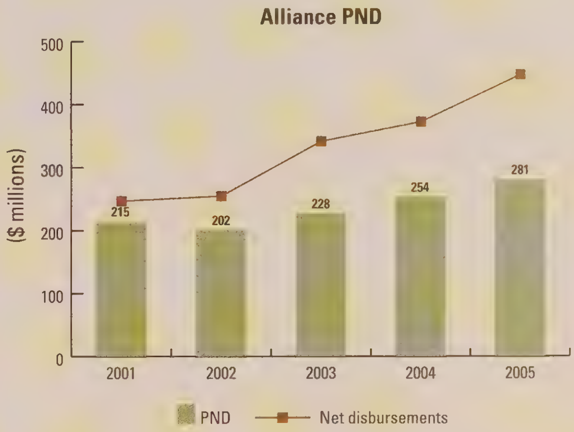
Alliances

Alliance PND grew by 10.6 per cent, from $254 million to $281 million in 2004-05. Alliance net disbursements increased by 20.2 per cent from $375 million to $450 million. The cash crops enterprise provided the largest increase in Alliance lending.

Alliance lending largely supports input type loans that tend to be repaid in less than one year. This results in net disbursements exceeding the portfolio balance. We continue to expand our Alliance partnerships and product offerings to take advantage of the opportunities in the market.







PND and net disbursements by enterprise

FCC lends to all areas of agriculture across Canada and groups them into seven major enterprises – cash crops, dairy, beef, value-added, hogs, poultry and other. By diversifying our portfolio between these different enterprises, we minimize the impact of enterprise specific issues and risks.

As a percentage of total net disbursements, there was an increase in the cash crops enterprise of 5.2 per cent, while there was a decrease in the dairy enterprise of 2.9 per cent. The decrease in lending to the dairy enterprise is due to the reduced demand for new loans in the sector and the impacts of a continued Canada/U.S. border closure. The total PND of the two major agriculture enterprises, cash crops and dairy, has increased slightly from 56.3 per cent to 56.8 per cent.

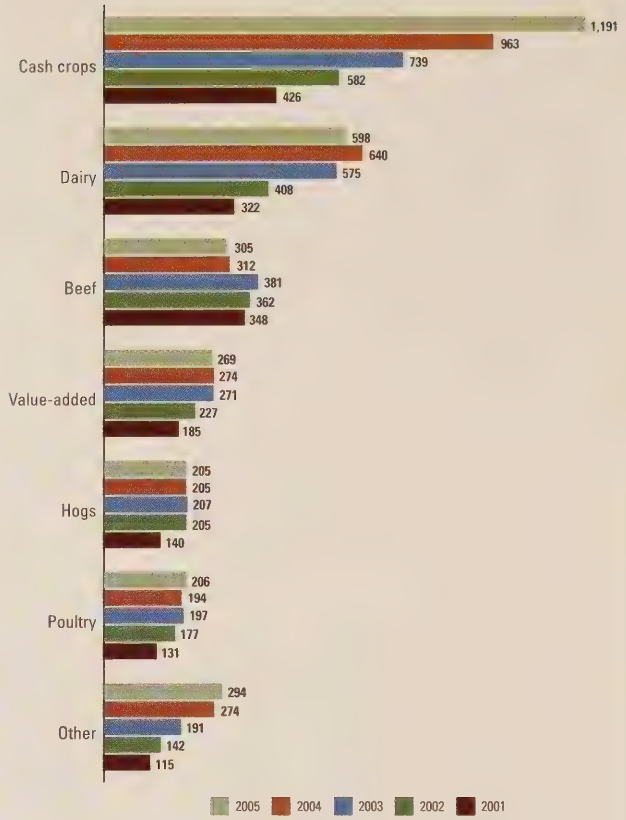
PND and net disbursements by geographic area

FCC promotes portfolio diversification by geographic area by maintaining a strong and consistent presence throughout rural Canada. We have offices in 100 rural communities from coast to coast.

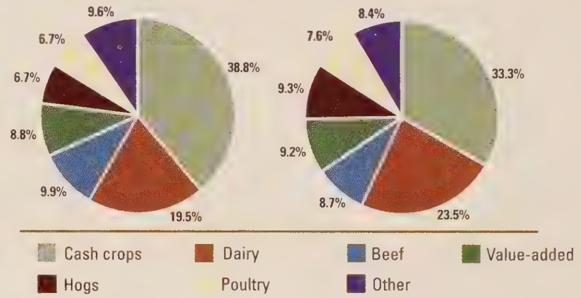
All areas across Canada experienced PND growth in 2004-05. The largest PND growth was experienced in the Western and Ontario areas, with growth of 19.6 per cent and 11.3 per cent respectively. The Quebec sales area experienced the lowest growth at 2.1 per cent due to very low growth in agriculture debt within the province as well as competitive pressures.

As a proportion of total PND the Western area increased from 22.0 per cent in 2003-04 to 23.7 per cent in 2004-05. The Ontario and Atlantic areas remained at similar levels as the prior year, while the Prairie and Quebec sales areas decreased slightly from 25.6 per cent and 12.3 per cent to 25.0 per cent and 11.3 per cent respectively.

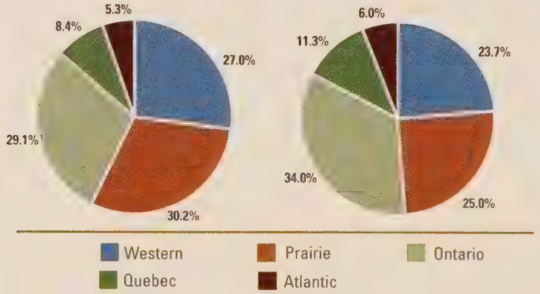
Net disbursements by enterprise
($ millions)



Net disbursements by enterprise 2005 **PND by enterprise 2005**



Net disbursements by area 2005 **PND by area 2005**

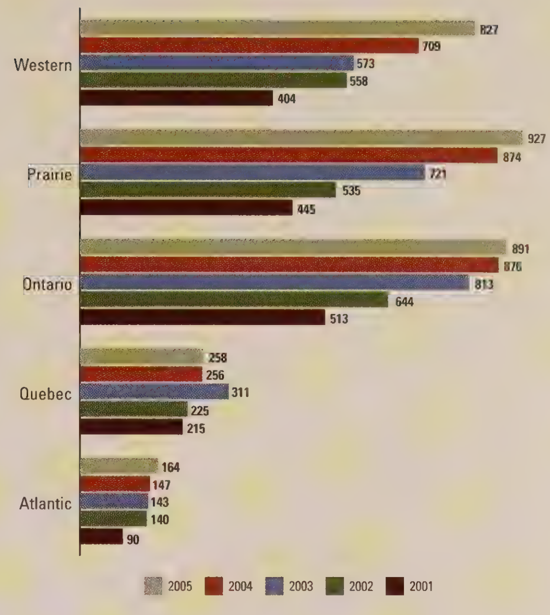


Net disbursements increased over the previous year in all areas across the country. The Western and Prairie areas experienced the largest increases, with $118 million and $53 million more net disbursements respectively. The largest increase in the Western and Prairie areas was in the cash crops enterprise.

The Western area net disbursements increased as a proportion of total net disbursements from 24.8 per cent in 2003-04 to 27.0 per cent in 2004-05. The Atlantic area experienced a slight increase, while the Prairie and Quebec areas experienced slight decreases. Ontario experienced the largest decrease in net disbursements as a proportion of total net disbursements from 30.6 per cent to 29.1 per cent.

Quebec experienced only a slight increase in net disbursements due to the issues previously mentioned. FCC is increasing marketing efforts within Quebec and has also added 10 new business development managers to assist in increasing lending volumes throughout Canada.

Net disbursements by area
($ millions)



Credit quality

The allowance for credit losses adjusts the value of loans receivable to reflect their estimated realizable value. In assessing their estimated realizable value, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. The allowance for credit losses is broken down into three components:

Specific – provides for probable losses on specific loans that have become impaired. Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.

General allocated – provides for management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. The allocated amount considers the corporation's Risk Scoring and Pricing System (RSPS) to identify loans that have shown some deterioration in credit quality.

General unallocated – considers recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks.

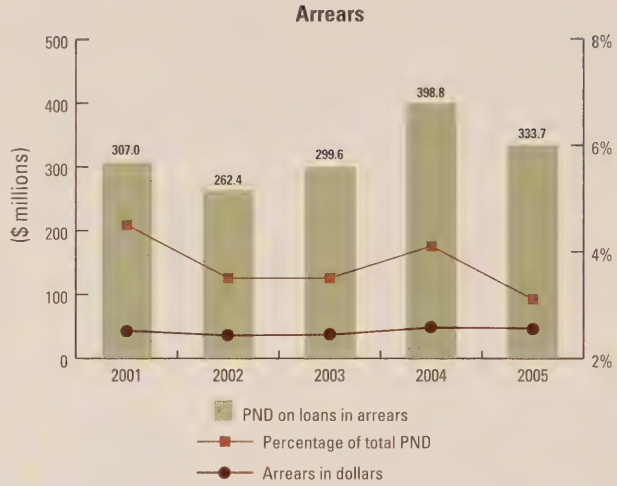
Management uses a number of indicators to assess the appropriate level of allowance for credit losses required, including loans in arrears and impaired loans. Impaired loans make up the largest portion of the specific allowance. Loans that have experienced arrears will typically have deterioration in credit quality and therefore manifest in the general allocated portion of the allowance for credit losses. Once the appropriate level of allowance is determined, the necessary amount of provision for credit loss is charged to the income statement to bring the allowance to the desired balance.

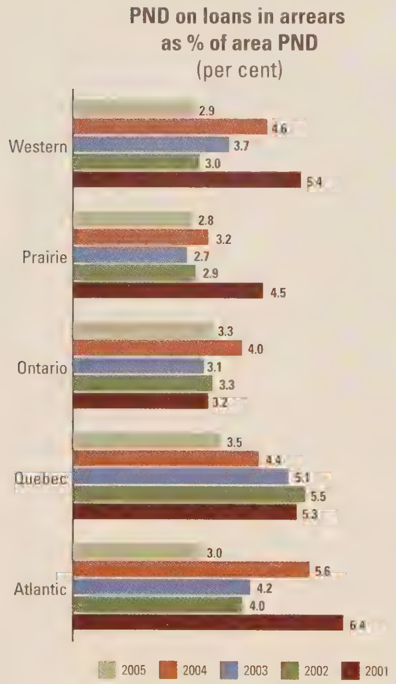
Loans in arrears

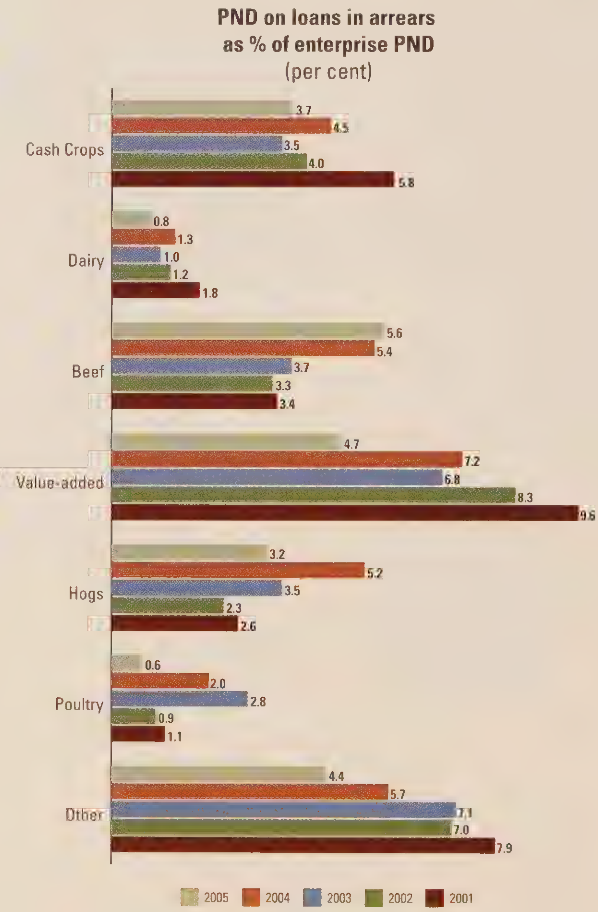
In 2004-05, arrears decreased to $39.2 million from $39.9 million in 2003-04, with PND on loans in arrears decreasing to $333.7 million from $398.8 million. PND on loans in arrears, as a percentage of total PND, decreased 1.0 per cent to 3.1 per cent.

Arrears levels across Canada have decreased in all enterprises except for a slight increase in beef. The decrease in arrears is reflective of improving conditions with respect to avian flu and hog prices, as well as the effect of customer support strategies that have been established in the past few years. The decrease in PND on loans in arrears is also due to the average principal size of loans in arrears being lower than the previous year and an increase in write-offs of loans in arrears over the previous year.

Although arrears and impaired loans levels have decreased from the previous year, there are a number of issues within the agriculture market that have yet to fully impact our portfolio. These include, but are not limited to, BSE and the continued border closure, depressed grain and oilseed prices, early fall frost and increases to energy-related input costs. We continue to monitor the portfolio and proactively assist our customers through difficult times.







Impaired loans

Impaired loan balances at the end of 2004-05 totalled $175.2 million, representing a decrease of $30.1 million from $205.3 million in the previous year. Impaired loans as a percentage of closing loans receivable decreased to 1.6 per cent from 2.0 per cent in 2003-04. FCC continually monitors its portfolio and the industry to identify potential for developing proactive solutions to help customers through difficult times.

Provision for credit losses

The provision for credit losses increased by $11.2 million, from $84.0 million in 2003-04 to $95.2 million due to the large portfolio growth, and increased risk.

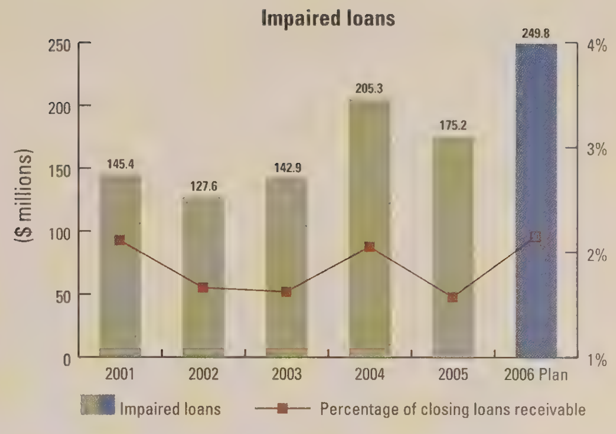
Allowance for credit losses

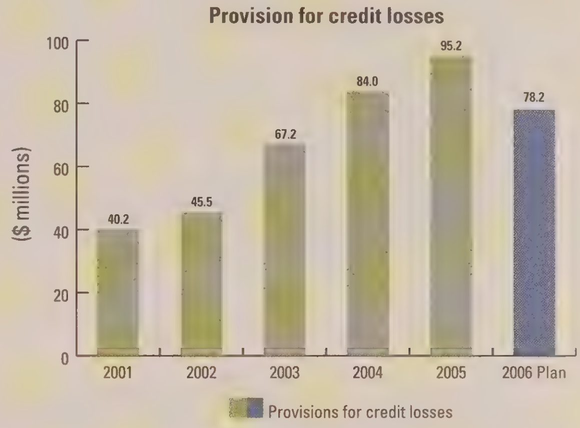
Due to growth in the portfolio, the allowance for credit losses increased by 14.1 per cent to $462.5 million, from $405.3 million in 2003-04. The allowance as a percentage of opening loans receivable remained constant with the previous year at 4.6 per cent in 2004-05.

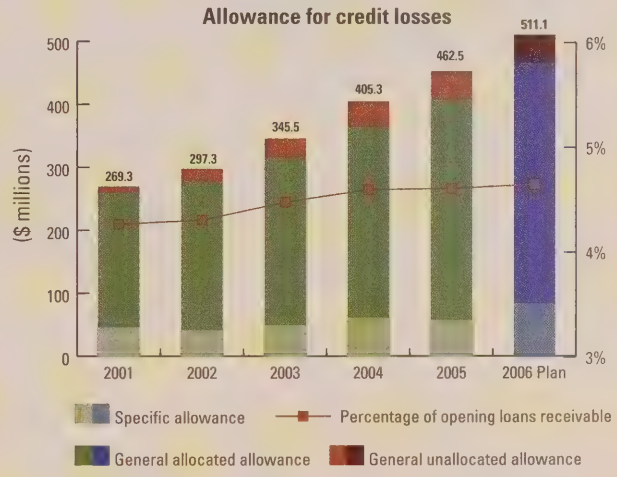
Performance against 2004-05 plan and outlook for 2005-06

The impaired loans balance in 2004-05 was below plan by $39.6 million and the arrears balance was $35.6 million below plan. The provision for credit losses was slightly above plan, reflecting the higher growth partially offset by the lower arrears and impaired loans balances. Although the provision for credit losses was $7.1 million above plan, the allowance for credit losses was only $3.1 million above plan due to higher than planned write-offs.

The outlook for 2005-06 is a similar level of allowance for credit losses in relation to the portfolio growth, with provision for credit losses expected to be lower than 2004-05 due to a reduced rate of portfolio growth. Most of the increase in the allowance for credit losses will be in the general allocated portion due to the increased level of arrears in the past several years.







	2006 Plan	2005	2005 Plan	2004
Arrears ($ millions)	81.1	39.2	74.8	39.9
Impaired loans ($ millions)	249.8	175.2	214.8	205.3
Provision for credit losses ($ millions)	78.2	95.2	88.1	84.0
Allowance for credit losses ($ millions)	511.1	462.5	459.4	405.3

Efficiency and cost control

Efficiency ratio

The efficiency ratio measures the percentage of each dollar earned in net interest income that is spent in the operation of the business. A low efficiency ratio indicates an efficient use of resources. In 2004-05, our efficiency ratio decreased for the seventh consecutive year to 40.3 per cent. Net interest income grew by 11.9 per cent. However, administration expenses only grew by 11.5 per cent, resulting in a slight reduction in the efficiency ratio. Personnel expenses, specifically salaries, experienced the highest gain from 2003-04 to 2004-05 due to the addition of 50 full-time equivalent employees to support our continuing portfolio growth.

The continued improvement in the efficiency ratio reflects benefits derived from strategic initiatives implemented in 2004-05 and prior years. Efficiency gains provide capacity to support growth in lending, enhanced product support, market development and customer service.

Performance against 2004-05 plan and outlook for 2005-06

Administration expense were $2.1 million higher than plan. However, our efficiency ratio was 1.7 per cent below plan due to the substantial portfolio growth over the 2004-05 plan. We expect the efficiency ratio for 2005-06 to increase due to investments being made in strategic initiatives and infrastructure that will support FCC's continued growth and increased operational capacities.

	2006 Plan	2005	2005 Plan	2004
Administration expenses ($ millions)	159.0	143.7	141.6	128.9
Efficiency ratio (per cent)	43.0	40.3	42.0	40.4

Financial results

Net interest income

Net interest income is the difference between the interest earned on assets and interest expense on borrowings. In 2004-05, net interest income increased to $351.9 million, an 11.9 per cent increase over the previous year. The two major factors contributing to the increase are portfolio volume and net interest margin, which is net interest income expressed as a percentage of average assets. Portfolio growth of $1.1 billion or 11.1 per cent was experienced in 2004-05 over the previous year, which contributed $31.2 million more in net interest income. The net interest margin of 3.22 per cent is at a similar level in 2004-05 compared to 2003-04. The increase in margin due to increases in total capitalization contributed $6.3 million in additional net interest income over 2003-04.

Net interest margin 2005	Average daily balance ($ millions)	Rate (per cent)
Earning assets:		
Fixed loan principal balance	4,092.2	7.00
Variable principal balance	6,361.3	4.87
Investments	536.1	2.36
Venture capital investments	19.8	10.59
Total earning assets	11,009.4	5.55
Total interest-bearing liabilities	9,735.2	2.78
Total interest rate spread		2.77
Impact of total capitalization	1,274.2	0.45
Net interest margin		3.22

The net interest margin is intended to cover credit risks through the provision for credit losses and administration expenses, as well as yield a sufficient return to enable the corporation to reinvest in future growth and viability.

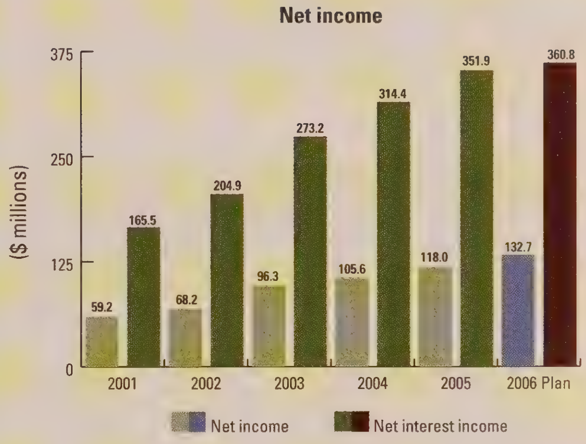
The following table outlines the historical year-over-year increases to net interest income and the amount of change that is due to changes in portfolio volume and changes in the net interest margin. We have refined our calculation of variances in 2004-05 and have recalculated prior year variances for comparison purposes. Variances in liability and equity volumes have been reclassified from portfolio volume to net interest margin.

Net interest income and margin ($ millions)	2006 Plan	2005	2004	2003	2002	2001
Interest income	732.9	627.8	622.1	562.0	548.6	549.5
Interest expense	372.1	275.9	307.7	288.8	343.7	384.0
Net interest income	360.8	351.9	314.4	273.2	204.9	165.5
Average total assets	11,597.5	10,940.8	9,739.1	8,563.3	7,562.8	6,813.6
Net interest margin (per cent)	3.11	3.22	3.23	3.19	2.71	2.43
Year-over-year change in net interest income due to:						
increase in portfolio volume	15.3	31.2	27.6	26.3	14.5	6.2
changes in net interest margin	(6.4)	6.3	13.6	42.0	24.9	4.9
Total change to net interest income	8.9	37.5	41.2	68.3	39.4	11.1

Net income

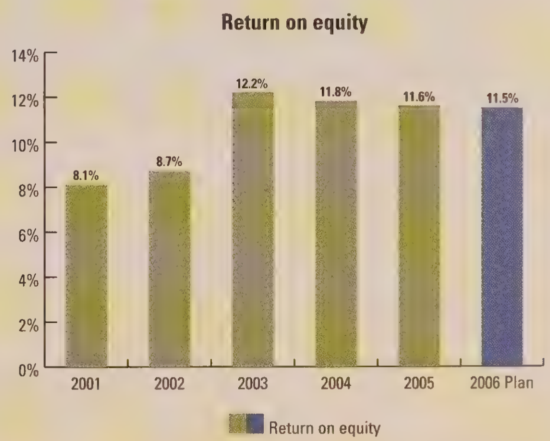
Net income is composed of net interest income plus fees and other income less the provision for credit losses and administration expenses.

Net income in 2004-05 increased to $118.0 million, an 11.7 per cent increase from the previous year. Portfolio growth, increased margin and a slight improvement in the efficiency ratio were somewhat offset by increased provision for credit losses attributed to growth in net income. FCC is a self-sustaining entity and therefore we reinvest our earnings back into agriculture through financing portfolio growth, new product development and business services that support the agriculture industry.



Return on equity

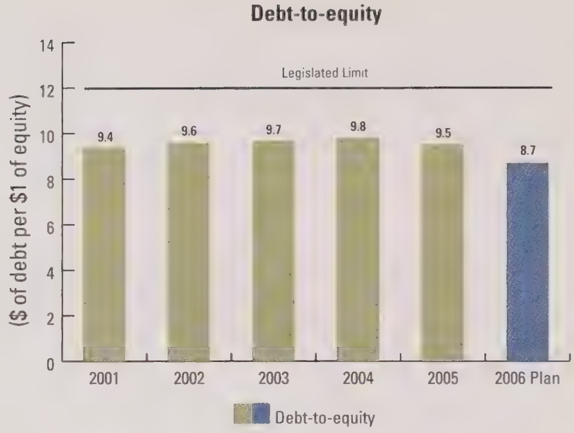
Return on equity is used to evaluate our performance, financial viability and our ability to fund future growth and strategic initiatives. Return on equity decreased slightly in 2004-05 to 11.6 per cent from 11.8 per cent in 2003-04. Increased provision for credit losses somewhat offset by strong portfolio growth and a slight improvement in the efficiency ratio contributed to the decrease in return on equity from the previous year.



Debt-to-equity

Debt-to-equity is the amount of debt the corporation has outstanding in relation to each dollar of equity.

Debt-to-equity decreased from 9.8 in 2003-04 to 9.5 in 2004-05. The decrease is due to the growth in net income, retained earnings and a $25 million injection of equity from the Government of Canada, which is being used to expand FCC Ventures. When the growth in equity exceeds the portfolio growth, the debt to equity ratio is reduced due to the reduced requirement for borrowing funds. Debt-to-equity is also a measure of risk as the more one borrows against a single dollar of equity, the greater the risk. The FCC legislated debt-to-equity limit is 12.0.



Performance against 2004-05 plan and outlook for 2005-06

In 2004-05, net interest income was $24.6 million above plan due to portfolio growth exceeding plan and higher than planned margin levels. Net income exceeded plan by $10.2 million due to the increase in net interest income and a lower than planned efficiency ratio. The resulting return on equity ratio was 0.9 per cent above plan. Debt-to-equity was 0.3 higher than plan due to the unexpected portfolio growth levels.

Net interest income is planned to increase to $360.8 million in 2005-06 due to portfolio growth attributing an additional $15.3 million, offset by slightly lower margins attributing a $6.4 million decrease compared to 2004-05. Net income is expected to increase to $132.7 million in 2005-06 due to portfolio growth and a reduced level of provision for credit losses, offset by increases in administration expenses. Return on equity is expected to decrease due to a planned increase in administration expenses leading to an increase in our efficiency ratio. This is due to investment in the strategic initiatives and infrastructure necessary to support our continued growth and success. As we are expecting a slowdown in growth for 2005-06, the debt-to-equity ratio is expected to drop as our equity will grow at a higher rate than the portfolio, reducing the borrowing requirements per dollar of equity.

	2006 Plan	2005	2005 Plan	2004
Net interest margin (per cent)	3.11	3.22	3.06	3.23
New lending margin (per cent)	2.53	2.63	2.58	2.59
Net interest income ($ millions)	360.8	351.9	327.3	314.4
Net income ($ millions)	132.7	118.0	107.8	105.6
Return on equity (per cent)	11.5	11.6	10.7	11.8
Debt-to-equity ($ of debt per $1 of equity)	8.7	9.5	9.2	9.8

Funding activities

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium and Long-Term Note (MTN) Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note (EMTN) Program.

Short-term funding

Short-term funding consists of borrowings with a term to maturity of less than one year. This includes the Domestic and Euro Commercial Paper programs as well as MTN and EMTN debt with less than one year to maturity. The outstanding short-term borrowings at March 31, 2005 were $2.7 billion, compared to $2.1 billion as at March 31, 2004. We increased our short-term borrowings to more closely reflect the growth seen in variable-rate mortgages in our portfolio.

Medium and long-term funding

Medium to long-term funding consists of all borrowings with a term to maturity of more than one year. This includes all MTN and EMTN debt with more than one year to maturity. During 2004-05, FCC borrowed a total of $2.8 billion in medium and long-term funds, down from $3.2 billion in 2003-04. The decrease is due to diminished structured note issuance this year. In 2004-05, $2.5 billion of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes. FCC also issued $257.1 million in the EMTN market, down from $373.9 million in 2003-04.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2004-05, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC foreign and domestic debt ratings are detailed below as of March 31, 2005.

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

FCC continuously pursues opportunities to diversify funding sources and access cost-effective funds from the capital market. Such initiatives are established pursuant to and in accordance with the Minister of Finance's Guidelines for Market Borrowings by Crown Corporations.

Capitalization

Capitalization ($ millions)	2006 Plan	2005	2004	2003	2002	2001
Equity:						
Capital	547.7	532.7	507.7	507.7	507.7	507.7
Retained earnings	675.8	551.8	437.5	331.9	235.6	322.8
Subtotal	1,223.5	1,084.5	945.2	839.6	743.3	830.5
Allowances	511.1	462.5	405.3	345.5	297.3	269.3
Total capitalization	1,734.6	1,547.0	1,350.5	1,185.1	1,040.6	1,099.8
Gross assets not requiring debt financing (per cent)	14.07	13.04	12.73	12.71	12.73	14.77

FCC's gross assets are $11,867.5 million, which are supported by equity and allowances of $1,547.0 million. At this level of capitalization, 13.04 per cent (2003-04 –12.73 per cent) of assets do not require external debt financing.

Business services

FCC Ventures

FCC Ventures, Farm Credit Canada's venture capital division, was formed in 2002-03 to address the critical need for more venture capital in agriculture to help fund the growth of the industry.

The FCC Ventures portfolio grew by 127.0 per cent in 2004-05 to $31.1 million. FCC Ventures direct capital investments and funds co-invested by various private equity funds increased in 2004-05 by 151.2 per cent over 2003-04. Since inception, FCC Ventures has attracted $65.9 million in co-investments and has reviewed more than 500 business plans from across the country and in various enterprises. FCC Ventures is expanding across the country to be closer to its key markets and customers.

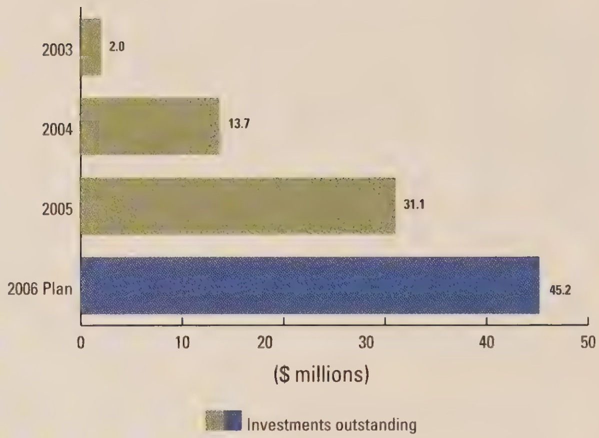
FCC Ventures continues to support growth in the agriculture market through its investments and by raising awareness of potential investment opportunities within the venture capital and financial markets.

Performance against 2004-05 plan and outlook for 2005-06

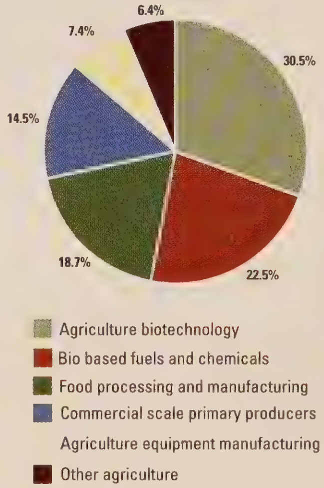
The 2004-05 plan for venture capital investments was $34.5 million. Actual investments were $3.4 million below plan. However, a number of investments were in the final stages of review as at our year-end. Even though investments were below plan for 2004-05, the ratio of dollars co-invested per FCC Ventures invested dollar exceeded plan.

The outlook for 2005-06 is direct investments outstanding of $45.2 million, a 45.3 per cent increase over 2004-05. The increase reflects investments carrying forward from the approval process as at year-end and reflects increased investments due to the expansion efforts planned for 2005-06.

Venture capital investments outstanding

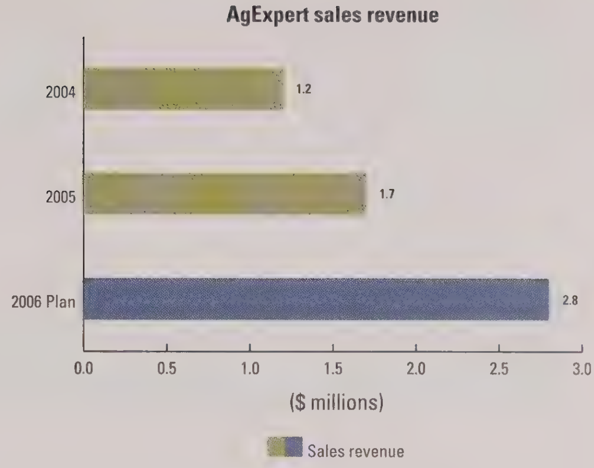


Investments by sector



	2006 Plan	2005	2005 Plan	2004
Direct capital invested ($ millions)	45.2	31.1	34.5	13.7
Co-investment ratio ($ co-invested per FCC dollar)	1.3	2.4	1.3	1.8

AgExpert



Purchased in 2002-03, AgExpert is Canada's leading publisher of farm management software, offering the AgExpert Analyst accounting software, and AgExpert Field Manager programs and related support to primary producers. In the past year, FCC continued to enhance AgExpert management software for application across Canadian agriculture and strengthen the connection to the FCC brand. New versions of the accounting software (AgExpert Analyst 2005) and field management software (AgExpert Field Manager Version 5.0) and related support generated $1.7 million in gross revenues in 2004-05 This is 41.7 per cent higher than 2003-04 revenues.

Key performance drivers of AgExpert include the product's ongoing relevance to agriculture-specific market requirements, including compliance programs such as the Canadian Agriculture Income Stabilization (CAIS) program and emerging food safety production initiatives. Expanded product use by key industry influencers and stakeholders will enable market share growth and revenue increases.

Performance against 2004-05 plan and outlook for 2005-06

In spite of the revenue gains achieved, sales were $0.7 million below plan for the past year. We forecast software and related support sales to increase to $2.8 million in 2005-06. These increases are expected to occur as AgExpert products continue to gain recognition in the marketplace and build on the strength of the FCC brand and distribution network.

	2006 Plan	2005	2005 Plan	2004
Sales revenue ($ millions)	2.8	1.7	2.4	1.2

AgriSuccess

FCC's AgriSuccess division delivers programs such as educational workshops and seminars designed to meet the needs of today's sophisticated farmers and agribusiness operators. The impact of AgriSuccess programs expanded in 2004-05, with the continued focus on management training and information. Research completed previously indicated the need for additional management training opportunities. To fulfil that need, four new AgriSuccess workshops were developed and delivered in the areas of financial management (ratio analysis and management accounting systems) and human resource management (acquisition and retention of employees). At the end of 2004-05, four additional modules are in the final stages of development and will be delivered next fiscal year (succession planning, vision/goal setting, estate planning and price risk management).

The AgriSuccess division offers the AgriSuccess Business Planning Award, which is presented to students attending agriculture diploma and degree programs across Canada. These awards encourage young people starting a career in agriculture to develop effective business plans while they have access to help from professional educators.

Advanced Farm Manager is an intensive training experience that focuses on all aspects of strategic business planning. This course was held in four locations this fiscal year. All AgriSuccess training and information programs are offered for the purpose of advancing management practices in Canadian agriculture.

Performance against 2004-05 plan and outlook for 2005-06

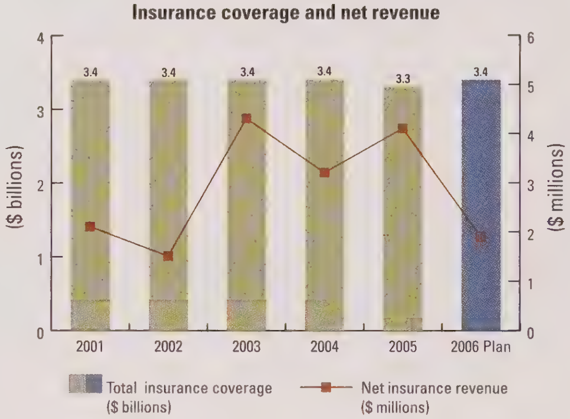
Thirty-nine training workshops were delivered across Canada. Eleven supplementary seminars were held, with expert presenters on a variety of management issues. In total, 1,626 people attended an AgriSuccess event this past year, 126 participants above plan. We expect the number of participants to increase to 2,000 in 2005-06.

AgriSuccess Journal is published semi-monthly with over 13,000 subscribers, 1,000 subscribers above plan. AgriSuccess Express reaches 13,500 e-mail inboxes each week. Circulation continues to grow and we expect to reach 14,500 in 2005-06.

	2006 Plan	2005	2005 Plan	2004
AgriSuccess participants	2,000	1,626	1,500	1,031
AgriSuccess journal distribution	14,500	13,087	12,000	4,500

AgriAssurances

FCC has been offering group creditor life insurance since 1960, providing protection for our customers, their families and their businesses. In recent years, FCC life insurance plans have been enhanced to cover accidental dismemberment, paralysis and blindness, as well as an early payout benefit in the case of a terminal illness. New insurance plans have also been introduced for specific customer needs and loan products. FCC group creditor insurance plans are underwritten by Sun Life Assurance Company of Canada.



At the end of 2004-05, the program had $3.3 billion outstanding in total loan insurance coverage, which is a slight decrease from $3.4 billion at the end of 2003-04. New insurance coverage sold in 2004-05 was $442 million, compared to new insurance sales of $464 million in 2003-04. New insurance sales are expected to increase in 2005-06 primarily due to the launch of a revolving credit insurance product. Insurance was not previously available on revolving credit loans, which are comprising a higher proportion of lending since introduction in fiscal 2003-04. Net insurance revenues were $4.1 million in 2004-05, an increase from $3.2 million in 2003-04 primarily due to a decrease in claims.

Performance against 2004-05 plan and outlook for 2005-06

Net revenues from AgriAssurances are quite volatile from year to year, depending on claims. Net revenues were $4.1 million in 2004-05 or $2.2 million higher than plan. Over the last three years, we have been experiencing below average claim levels. With claims projected at an average historic level, the net insurance revenue for 2005-06 is projected at $1.9 million.

	2006 Plan	2005	2005 Plan	2004
Net insurance revenue ($ millions)	1.9	4.1	1.9	3.2

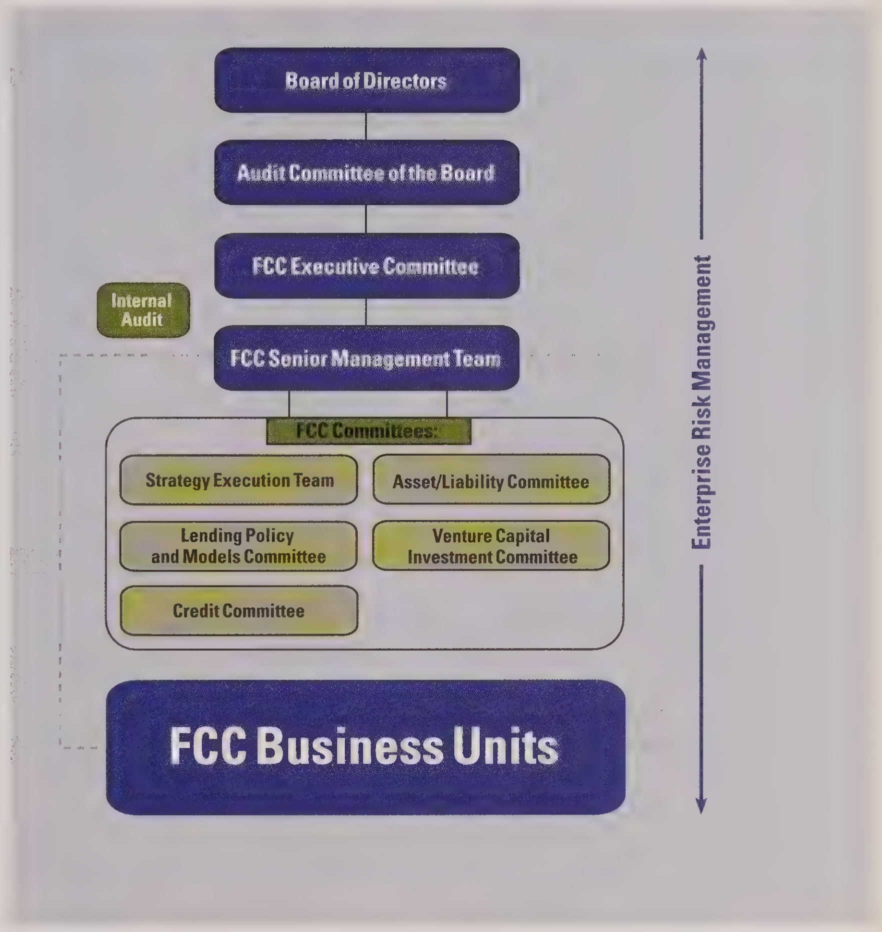
Enterprise risk management

All FCC business activities involve risk. Sound Enterprise Risk Management (ERM) practices help us balance our risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives. Our risk governance framework enables us to manage our four main categories of risk : credit risk, market risk, liquidity risk and operational risk.

Risk governance

The **Board of Directors** is responsible to review management's enterprise risk management policies, control systems and practices that have been put in place to manage key risks identified by management.

The **Audit Committee** of the FCC Board of Directors is responsible for ensuring that management has identified key risks and has put in place reasonable policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining the levels and trends in major risk areas and corresponding risk management measures implemented, to provide assurance that FCC is effectively managing risk.



FCC's **Executive Committee** (EC) sets the tone for ERM at FCC and is accountable for championing a culture that supports effective risk management, strategic decision-making, including risk/reward decisions, compensation alignment and prioritization. Additionally, EC reports to the Board on major risks with potentially high impact to the corporation as they arise.

The **Senior Management Team** (SMT) participates in enterprise-wide discussion of risks and ranks them according to the extent of their impact and likelihood. SMT is accountable to develop risk management action plans and to report against these risks.

Strategy Execution Team (SET) is responsible for the ongoing monitoring and execution of the corporate workplan, to enable the achievement of FCC strategic objectives. SET prioritizes and sequences corporate projects to ensure alignment with the FCC strategy and optimum use of our financial and human resources.

The **Asset/Liability Committee** is responsible for the establishment and maintenance of market risk policies and procedures, and ensuring sufficient integration with corporate strategic and financial planning.

The **Lending Policy and Models Committee** oversees the development of lending policies and the enhancement of credit risk models and scorecards to support and maintain FCC's desired credit culture. The committee works to ensure that these portfolio risk tools reflect FCC credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.

The **Credit Committee** reviews and makes lending decisions on loan applications from customers with total exposure in excess of $10 million for established operations and in excess of $5 million for start-up operations.

The **Venture Capital Investment Committee** adjudicates all venture capital investment recommendations and reviews the performance of the existing investment portfolio.

Internal Audit provides independent assurance to FCC management and the Audit Committee on the effectiveness of FCC risk management, internal control and governance processes.

The **Enterprise Risk Management** department offers a comprehensive view of risk across the organization and works with the Strategy and Corporate Project Management Office to ensure that ERM is incorporated in the strategic planning process. The ERM function facilitates the assessment and ranking of significant risks identified by FCC management and supports business units in developing actions to address ongoing business risks, while enhancing FCC's ability to capitalize on developing opportunities. ERM reports semi-annually to the Audit Committee with respect to the highest-ranked risks.

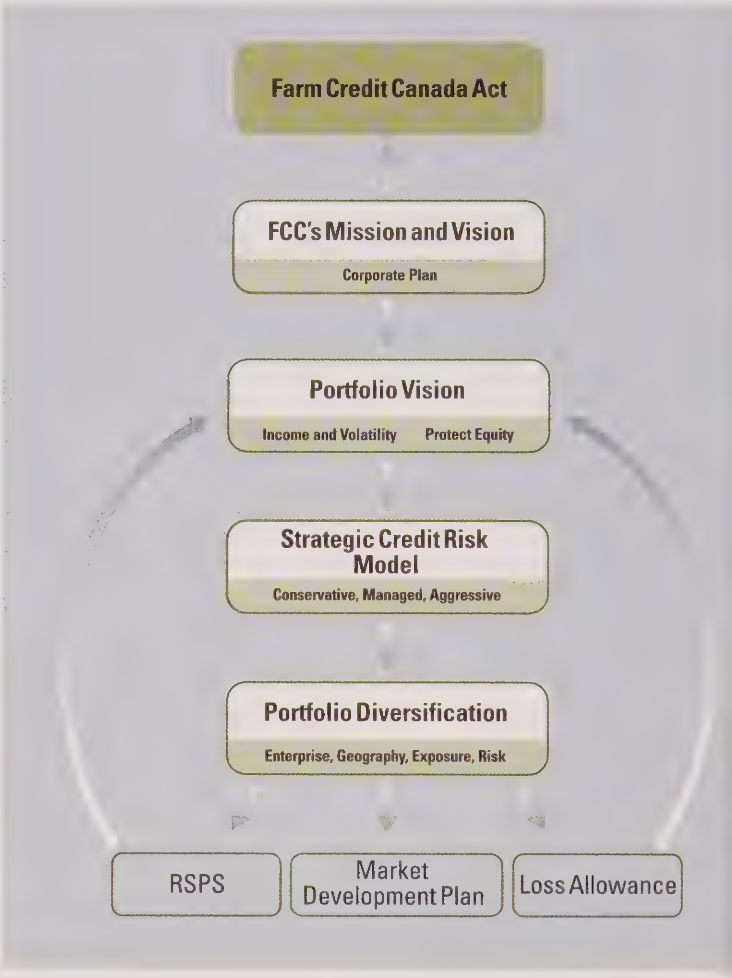
Credit risk management

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to FCC. Credit risk is the most significant area of risk for FCC.

In order to fulfil our mission and to meet our governing objective of remaining financially self-sustaining, a balance must be maintained between net income (profitability) and risk (volatility of net income).

This relationship is explained in our portfolio vision statement: "FCC's vision for the loan portfolio is having it perform at a level sufficient to create the desired level of net income within an acceptable range of volatility. The desired net income will support growth of the portfolio to thereby achieve FCC's mission in a growing agricultural economy."

The Portfolio Management division assesses credit risk at the aggregate level, providing risk assessment tools and models to quantify credit risk and default loss allowances. They also monitor the agriculture and agri-food operating environments to ensure FCC lending policies, activities and prices are appropriate and relevant.



The following tools or systems are used to manage credit risk of the portfolio. Annually, numeric targets associated with many of these tools are set to assist in achieving the portfolio vision statement. Significant research, modelling, validation and interpretation support the targets for each tool:

Strategic Credit Risk Model (SCRM) measures the risk in the portfolio, first by totalling individual loans or transaction risk, then overlaying risks for groups (concentrations) of loans by lines of business, enterprises, geographic areas and customer exposure. There are three possible score ranges, each corresponding to a credit risk strategy:

- Conservative (maximizes portfolio quality)
- Managed (balances portfolio quality and growth)
- Aggressive (maximizes growth)

FCC targets the managed range, and in 2004-05, the SCRM indicated a managed level of overall strategic credit risk.

These results show consistent credit risk exposure over the past five years, indicating that credit risk has been managed successfully.

Portfolio Diversification Plan is a process that determines the five-year optimal portfolio composition through a balance of profitability and risk. It considers projected growth in Canadian agriculture debt, risk-adjusted and cost-adjusted returns by sector, FCC growth trends and market share. The Portfolio Diversification Plan identifies target ranges and adjustment options for each of the following:

- diversification across enterprises, geographic areas and business lines;
- market share by enterprise and geographic area;
- large customer exposure limits and approval authorities for large exposure customers; and,
- maximum target market share for minor, niche market sectors.

FCC is currently within the target ranges, and is planning for growth in each sector.

Risk Scoring and Pricing System (RSPS) is a behavioural scorecard used as FCC's risk rating system. It is used to suggest interest rates for individual loans and ensures the cost of funds, risk, operating cost and planned profit are recovered.

The **Market Development Plan** operationalizes the Portfolio Diversification Plan, presenting the rationale, objective and strategy for each of FCC's business lines. The strategy component presents the relative priority of market development efforts in retention, expansion or acquisition for each business line in the upcoming year.

Loan Loss Allowance models the losses due to credit risk within the loan portfolio. The Specific Loan Loss model identifies non-performing loans. The General Allocated Loan Loss model identifies loans that are still performing, but have characteristics that indicate deterioration in credit-worthiness. For both of these groups of loans, the models consider security position to estimate the appropriate amount of loss allowance. The General Unallocated Loan Loss Allowance is a third component of loan loss that considers recent events and changes in economic conditions that may have created deterioration in credit quality for many loans, but where the loans have not yet exhibited deterioration in credit quality. Quantifying and recording such losses protects FCC's equity and reduces the stated loans receivable on FCC's balance sheet.

The Credit Policy department is responsible for the management of FCC lending policies, and makes recommendations to the Lending Policy and Models Committee to ensure an appropriate balance between risk mitigation and effective procedures. Credit Policy reviews, enhances and clarifies lending policies, communicates policy changes to staff, provides policy training and ongoing interpretation of policy in relation to general and specific lending situations.

Operations staff are responsible for managing credit risk on the loans in their portfolio. Lending authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. Operations monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.

The Credit Risk division manages credit risk for larger loans as well as loans with a higher risk rating. Credit Risk staff are responsible for delegation of authorities, credit training and coaching, and credit authorization, including Credit Committee recommendations. Valuations staff research land sales, maintain benchmark data on land values, and appraise the value of FCC security with particular emphasis on specialized enterprises and agribusinesses. Special Credit staff manage and resolve higher-risk accounts experiencing challenges.

Market risk management

Market risk is the potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rate variability.

FCC has market risk policies and limits to ensure exposures to interest rate and foreign exchange risk are measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by FCC's Asset/Liability Committee (ALCO) and are approved by FCC's Board of Directors. The market risk policy limits were developed in consultation with the federal Department of Finance. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and quarterly to the Board of Directors on its activities and asset/liability positions.

The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division mitigates market risk by managing interest rate risk. FCC's policy is to hedge foreign exchange rate risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency is used specifically to finance a like currency asset.

Interest rate risk

Interest rate risk is the potential impact of changes in interest rates on FCC's earnings and economic value. FCC is exposed to interest rate risk primarily from interest rate mismatches and embedded options. Interest rate mismatches between assets, liabilities and off-balance sheet instruments occur because of different maturity, renewal and/or re-pricing dates. Embedded options existing on loans that have prepayment features and interest rate guarantees on mortgage commitments. Exposure to interest rate risk is monitored using an asset/liability model. Various scenarios are produced on a monthly basis to analyse material adverse factors. The asset/liability model is back-tested to ensure that the assumptions used in the model are comparable to actual results.

Asset/liability management

FCC measures interest rate risk exposures with an asset/liability model. The model simulates changes in net interest income and market value portfolio equity for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2005, an immediate two per cent increase (decrease) in interest rates across all maturities would affect net interest income and market value portfolio equity as follows:

	2% increase	2% decrease
	$ millions	
Net interest income variability	+1	-2
Market value portfolio equity variability	-72	+67

Throughout 2005, FCC was within Board-approved risk management guidelines and policies with respect to exposures to interest rates and foreign exchange risks.

Derivatives

FCC uses derivatives for risk management. No derivatives are entered into for speculative purposes. Derivative instruments may be used to hedge exposures to foreign exchange risk, basis risk, the options embedded in FCC loan products, and the mismatches in the maturities and interest rate characteristics of FCC assets and liabilities. In addition, in the normal course of financing the operations of FCC, derivative instruments may be used in combination with a debt instrument to synthetically create floating or fixed rate debt. Such transactions alter the cash flows and risk profile of the assets and liabilities to ensure interest rate risk and foreign exchange risk are managed within Board-approved limits and Department of Finance borrowing limits. We comply with the guidance for hedging relationships as outlined by the CICA.

Derivative instruments are subject to credit risk arising from the potential for a counterparty to default on its contractual obligation. FCC is not exposed to credit risk for the full notional amount (face value) of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. To mitigate this risk, FCC transacts derivatives only with counterparties of acceptable credit quality, as determined by the published ratings of external credit rating agencies. Standard credit mitigation, via netting arrangements provided in the master ISDA (International Swap and Derivatives Association) documentation, provide for the simultaneous close-out and netting of positions with a counterparty in the event of a default. Credit Support Annex documentation is also in place with several FCC counterparties. These agreements are addendums to existing ISDA documentation and provide for the provision of collateral to FCC in the event that the counterparty credit exposure exceeds an agreed threshold.

Liquidity risk management

Liquidity risk is the potential for financial loss if FCC cannot meet a demand for cash or fund our obligations at a reasonable price as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash and marketable securities equal to $586.8 million were on hand at March 31, 2005 (March 31, 2004 – $478 million). ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities and limits the size and composition of the total investment portfolio;
- access to commercial paper markets – FCC's domestic and Euro commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements; and,
- access to a $10-million bank operating line of credit and a $50-million revolving credit facility.

Operational risk management

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events that are not related to credit, market or liquidity risks.

Managers are responsible for daily management of operational risk, while Executive Committee and the Senior Management Team are responsible for managing enterprise-wide operational risk. All FCC staff are responsible to comply with corporate policies and procedures.

The Strategy Execution Team (SET) monitors the execution of the corporate workplan and prioritizes and sequences corporate projects to ensure alignment with the FCC strategy and optimum use of FCC financial and human resources.

The FCC General Counsel and Chief Privacy Officer is responsible for managing risks associated with changes in legislation, litigation involving FCC, and privacy of customer and employee information.

Administration Services is responsible for managing risks associated with physical facilities, employee safety and security, insurance policies, emergency preparedness and many aspects of business continuity planning.

Information Technology is responsible for managing risks related to computer systems, data integrity, disaster recovery and data services.

Enterprise Risk Management assists functional and senior managers in identifying operational risks, facilitates an annual evaluation of the likelihood and potential impact of these risks, co-ordinates the business continuity plan and prepares semi-annual progress reports for FCC senior management and the Audit Committee.

Farm Credit Canada
Agriculture. It's all we do.

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses, the provision for employee future benefits, and the fair value for financial instruments, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the corporation and for issuing her report thereon.

John J. Ryan
President and Chief Executive Officer

Moyez Somani
Executive Vice-President and Chief Financial Officer

Regina, Canada
May 13, 2005

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food

I have audited the balance sheet of Farm Credit Canada as at March 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for loan fees as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act* and the bylaws of the corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 13, 2005

Balance Sheet

As at March 31 (thousands of dollars)

	2005	2004 (Restated – Note 2)
Assets		
Cash and cash equivalents	$ 318,062	$ 149,409
Temporary investments (Note 3)	268,743	328,823
Accounts receivable	67,097	37,924
	653,902	516,156
Loans receivable – net (Notes 4 and 5)	10,687,450	9,633,697
Venture capital investments (Note 6)	31,128	13,700
	10,718,578	9,647,397
Real estate acquired in settlement of loans	521	3,711
Equipment and leasehold improvements (Note 7)	28,343	29,883
Other assets	3,649	6,737
	32,513	40,331
Total Assets	$ 11,404,993	$ 10,203,884
Liabilities		
Accounts payable and accrued liabilities	$ 36,097	$ 31,467
Accrued interest on borrowings	77,167	69,097
	113,264	100,564
Borrowings (Note 8)		
Short-term debt	2,729,907	2,075,593
Long-term debt	7,373,823	7,064,458
	10,103,730	9,140,051
Other liabilities (Note 9)	103,450	18,045
	10,320,444	9,258,660
Shareholder's Equity		
Capital (Note 1)	532,725	507,725
Retained earnings	551,824	437,499
	1,084,549	945,224
Total Liabilities and Shareholder's Equity	$ 11,404,993	$ 10,203,884

Guarantees, commitments and contingent liabilities (Note 14).
The accompanying notes are an integral part of the financial statements.

Approved:

Rosemary Davis

Rosemary Davis
Chair, Board of Directors

Marie-Andrée Mallette
Chair, Audit Committee

Statement of Operations and Retained Earnings

For the year ended March 31 (thousands of dollars)

		2005		2004 (Restated – Note 2)
Interest Income				
Loans receivable	$	613,131	$	608,425
Investments		14,713		13,731
		627,844		622,156
Interest expense				
Short-term debt		54,131		48,952
Long-term debt		221,816		258,744
Total interest expense		275,947		307,696
Net Interest Income		351,897		314,460
Provision for credit losses (Note 5)		95,150		84,031
Net Interest Income after provision for credit losses		256,747		230,429
Other income		4,962		4,153
Income before administration expenses		261,709		234,582
Administration expenses (Note 10)		143,705		128,942
Net Income		118,004		105,640
Retained earnings, beginning of year		437,499		331,859
Dividend paid (Note 1)		(3,679)		–
Retained Earnings, end of year	$	551,824	$	437,499

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

For the year ended March 31 (thousands of dollars)

		2005		2004 (Restated – Note 2)
Operating Activities				
Net income	$	118,004	$	105,640
Items not involving cash and cash equivalents:				
Provision for credit losses (Note 5)		95,150		84,031
Amortization of bond premiums/discounts		18,933		29,195
Change in accrued interest receivable		(6,405)		(2,075)
Change in accrued interest payable		7,166		(5,179)
Other		14,591		47,156
Cash provided by operating activities		247,439		258,768
Investing Activities				
Loans receivable disbursed		(3,508,900)		(3,188,100)
Loans receivable repaid		2,361,752		1,932,536
Change in temporary investments		60,080		(72,041)
Venture capital investments disbursed		(17,300)		(11,700)
Change in real estate held		3,190		239
Other		(1,150)		(2,227)
Cash used in investing activities		(1,102,328)		(1,341,293)
Financing Activities				
Long-term debt from capital markets		2,765,523		3,202,869
Long-term debt repaid to capital markets		(2,392,616)		(2,681,048)
Dividend paid		(3,679)		–
Change in short-term debt		654,314		563,430
Cash provided by financing activities		1,023,542		1,085,251
Change in cash and cash equivalents		168,653		2,726
Cash and cash equivalents, beginning of year		149,409		146,683
Cash and cash equivalents, end of year	$	318,062	$	149,409
Supplemental Information				
Cash interest paid during the year	$	267,876	$	313,775

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the *Income Tax Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the corporation with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, which updated the *Farm Credit Corporation Act*. This new act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, the corporation may deliver specific programs for the Government of Canada on a cost-recovery basis.

Capital

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2005, capital payments received or receivable from the Government of Canada amounted to $1,193.3 million (2004 – $1,168.3 million). The statutory limit for that same period was $1,250.0 million (2004 – $1,225.0 million).

During the year the corporation reached an agreement with the Government of Canada to provide additional capital contributions totalling $75 million. Of this amount, $25 million has been accrued in the corporation's accounts receivable as at March 31, 2005. The Governor General in Council approved to pay this amount on or before March 31, 2005. The remainder of the capital contributions are expected to be received by the corporation over the next four years.

Dividend

On February 2, 2005, the corporation's Board of Directors declared a dividend in the amount of $3.7 million, to the corporation's shareholder – the Government of Canada which was paid February 22, 2005.

Limits on borrowing

The *Farm Credit Canada Act* restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2005, the corporation's total liabilities were 9.6 times the equity of $1,084.5 (2004 – 9.9 times the equity of $945.2 million).

2. Significant accounting policies

The corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments.

The significant accounting policies used in the preparation of these financial statements are summarized in the following pages.

Cash and cash equivalents

Cash and cash equivalents are comprised of bank account balances net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

Temporary investments

Temporary investments are defined as investments with maturity dates between 91 and 365 days from the date of acquisition. They are acquired primarily for liquidity purposes and are intended to be held to maturity. Temporary investments are carried at cost; however, where there has been a significant and other than temporary decline in market value, temporary investments are written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value are included in investment income.

Loans receivable

Loans receivable are stated net of the allowance for credit losses and deferred loan fees.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the allowance for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees

As a result of the growing loan portfolio, the corporation changed its accounting policies related to loan fees to more appropriately present related transactions in the financial statements.

Fees relating to loan origination, including commitment, restructuring and renegotiation fees, are considered an integral part of the return earned on the loans and are deferred as unearned income and amortized to interest income over the average loan term. In addition, certain incremental direct costs for originating the loans are reclassified from administration expenses and netted against the related fees. Previously, loan origination fees were recognized in other income when received. Loan prepayment fees are recognized in interest income when received. Previously, these fees were deferred and amortized into interest income over the average remaining term of the loan.

The change in accounting policy has been applied retroactively and prior years have been restated for comparability. The impact on net income for 2005 is an increase of $462,000 (2004 – $539,000) and on opening retained earnings for the year ended March 31, 2004, a reduction of $3,187,000.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government support programs, commodity prices and climatic conditions.

In determining the allowance for credit losses, management segregates credit losses into three components: specific, general allocated and general unallocated.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of the recorded investment or the estimated realizable amount of the underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the criteria that would require a specific allowance to be established. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to identify probable credit losses on a loan-by-loan basis. The amount of the allowance is calculated based on the application of expected loan default rates to the estimated loss amounts for the loans identified. These factors are based on the corporation's historic loan loss experience and are adjusted to reflect current conditions.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Real estate acquired in settlement of loans

Property acquired from customers to satisfy loan commitments is classified as held for sale and recorded at fair value, less cost to sell. Fair value less cost to sell is the amount that could be realized in an arm's length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Net operating costs incurred on real property held for sale are included as a component of other income. Recoveries arising from the disposal of real property held for sale are recognized when title to the property passes to the purchaser. The carrying value of real property held for sale is also adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. These recoveries and adjustments are included as a component of other income.

Venture capital investments

Venture capital investments where the corporation does not have significant influence are recorded at cost. Interest on debt and dividends on preferred shares are accrued when receivable with dividends on common shares included in income when declared. Investments over which the corporation has significant influence are recorded using the equity method. Under this method, the pro rata share of undistributed post-acquisition earnings is included in income for the period. Dividends received or receivable reduce the carrying value of the investment.

Gains or losses on disposal are recognized in income when realized. Where there has been a significant and other than temporary decline in value, the investment is written down to recognize the loss.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 and 5 years
Leasehold improvements	Straight-line	Lease term

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the monthly average exchange rates prevailing throughout the year. All exchange gains and losses are included in net income for the year as a component of interest income or interest expense.

Long-term debt

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Derivative financial instruments

Market risk is the risk of loss due to an exposure to changes in foreign exchange rates or interest rates. Derivative financial instruments, which are used to manage this risk, create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. The corporation manages its exposure to market risk using limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Effective April 1, 2004, the corporation adopted the new accounting guideline issued by the Canadian Institute of Chartered Accountants (CICA) on hedging relationships. Under the guideline, derivative financial instruments that do not qualify for hedge accounting must be measured at fair value with the change in fair value recognized in net income in the period in which the change occurred. All of the corporation's derivative financial instruments qualified for hedge accounting, therefore there was no impact on the corporation's net income for the year ended March 31, 2005.

The corporation formally assesses and documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, to ensure the relationships qualify for hedge accounting. This process includes linking all derivatives to specific assets, liabilities, or cash flows. The corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives that qualify for hedge accounting are accounted for under the accrual method rather than at fair value. Under the accrual method, gains and losses on interest rate or equity index-linked swap contracts are recognized when amounts become receivable or payable under the contract. Gains and losses on foreign currency exchange contracts are recognized to the extent required to offset the gain or loss arising on the translation of the foreign currency denominated monetary asset or liability. All gains and losses on derivatives are recognized in the same period and in the same income statement category to which the underlying hedged item relates. Amounts receivable or payable under interest rate or equity-linked swap contracts are included as a component of accounts receivable or accounts payable and accrued liabilities. Unrealized gains and losses on foreign currency exchange contracts are included as a component of accounts receivable, other assets, accounts payable and accrued liabilities or other liabilities.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or if the derivative is terminated or sold. If hedge accounting is terminated, the difference between the fair value and the accrued value of the derivative upon termination is deferred as a component of other assets or other liabilities and recognized into income or expense on the same basis as gains, losses, revenues and expenses of the previously hedged item are recognized in income or expense.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the underlying instrument as an adjustment to interest expense. Unamortized balances of premiums received or paid are included as a component of the other assets or other liabilities, respectively.

Employee future benefits

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

The accrued benefit obligation for pension and non-pension post-retirement benefits is actuarially determined using the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plan is 15 years (2004 – 15 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 20 years (2004 – 22 years).

On termination of employment, employees are entitled to non-pension post-retirement benefits provided for under their terms of employment. The corporation also provides health care benefits to employees on long-term disability.

Future changes in accounting policies

Consolidation of Variable Interest Entities
The CICA has issued Accounting Guideline 15 – Consolidation of Variable Interest Entities (VIEs) which requires the consolidation of certain VIEs that are subject to control on a basis other than ownership of voting interests. The new standard is effective for the corporation's fiscal year beginning April 1, 2005.

VIEs include entities where the equity invested is considered insufficient to finance the entities' activities or, where the equity investors lack either voting control, an obligation to absorb expected losses or the right to receive expected residual returns. The new rules require the corporation to consolidate any VIE where the investments held in these VIEs and/or the relationships with them results in the corporation being exposed to a majority of their expected losses, being able to benefit from a majority of their expected returns, or both.

The corporation is currently assessing the impact of the new standard and, in particular, whether any of its venture capital investments may be considered a VIE, and if so, whether the corporation may be required to consolidate the VIE in its financial statements. Early indications suggest the impact on the corporation's financial statements will not be significant.

Financial instruments
In January 2005, the CICA issued three new accounting standards: *Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income*. The new standards are to be applied prospectively and are effective for the corporation's fiscal year beginning on April 1, 2007. Earlier adoption is permitted.

The new standards will require the corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Held-to-maturity will be restricted to financial assets with a fixed term to maturity that the corporation intends and is able to hold to maturity. Financial assets held-to-maturity and loans and receivables will be accounted for at amortized cost. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in shareholder's equity called Other Comprehensive Income (OCI).

Financial liabilities will be classified as held-to-maturity or held-for-trading. Financial liabilities held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial liabilities classified as held-to-maturity will be accounted for at amortized cost.

Derivative financial instruments will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivative's fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in OCI. These will subsequently be reclassified to net income in the periods net income is affected by the variability in the cash flows of the hedged item.

The corporation is currently assessing the impact of the new standards.

3. Temporary investments

(thousands of dollars except %)	2005	2004
Issued or guaranteed by Canada	$ 23,926	$ 69,705
Yield	2.46%	2.06%
Other institutions	244,817	259,118
Yield	2.60%	2.30%
	$ 268,743	$ 328,823

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1M or higher by Dominion Bond Rating Service (2004 – R-1M or higher). As at March 31, 2005, the largest total investment in any one institution was $60.0 million (2004 – $74.7 million).

4. Loans receivable - net

(thousands of dollars except %)	2005	2004
Floating	$ 6,953,857	$ 5,540,646
Yield	5.11%	4.88%
Fixed	4,030,039	4,303,455
Yield	6.95%	7.24%
Performing loans	10,983,896	9,844,101
Impaired loans	175,220	205,334
Deferred loan fees	(9,166)	(10,399)
Loans receivable – gross	11,149,950	10,039,036
Less: allowance for credit losses	(462,500)	(405,339)
Loans receivable – net	$ 10,687,450	$ 9,633,697

The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and reprice with changes in the rate. The loan maturities are disclosed in Note 15.

Management estimates that annually, over the next three years, approximately 7.5% (2004 – approximately 7.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2005, $76.5 million (2004 – $58.5 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully hedged at time of issuance.

Concentration of credit risk

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics, such as location or industry, such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. To manage this risk, the corporation maintains a portfolio vision defining an acceptable portfolio composition by sector and geographic area. The portfolio vision is approved by the Board of Directors and at March 31, 2005 all concentrations are consistent with the approved vision. The concentrations of performing loans by sector and geographic area are displayed in the following tables:

Sector distribution

(thousands of dollars except %)		2005			2004	
Cash crops	$	3,663,209	33.3%	$	3,253,078	33.0%
Dairy		2,579,947	23.5%		2,297,669	23.3%
Beef		955,506	8.7%		922,925	9.4%
Value-added		1,011,292	9.2%		935,613	9.5%
Hogs		1,018,630	9.3%		943,477	9.6%
Poultry		838,103	7.6%		746,692	7.6%
Other		917,209	8.4%		744,647	7.6%
Performing loans	$	10,983,896	100.0%	$	9,844,101	100.0%

Geographic distribution

(thousands of dollars except %)		2005			2004	
Western	$	2,527,636	23.0%	$	2,126,953	21.6%
Prairie		2,785,536	25.4%		2,537,981	25.8%
Ontario		3,724,293	33.9%		3,336,600	33.9%
Quebec		1,281,576	11.7%		1,246,619	12.7%
Atlantic		664,855	6.0%		595,948	6.0%
Performing loans	$	10,983,896	100.0%	$	9,844,101	100.0%

5. Allowance for credit losses

(thousands of dollars)		2005		2004
Balance, beginning of year	$	405,339	$	345,485
Write-offs, net of recoveries		(37,989)		(24,177)
Provision for credit losses		95,150		84,031
Balance, end of year	$	462,500	$	405,339
Specific allowance	$	55,795	$	60,232
General allocated allowance		356,705		305,107
General unallocated allowance		50,000		40,000
Balance, end of year	$	462,500	$	405,339

As at March 31, 2005, the total recorded investment in loans receivable against which a specific allowance has been identified was $175.2 million (2004 – $205.3 million). The general allowances were established against the remaining $ 10,983.9 million (2004 – $9,844.1 million) investment in loans receivable.

6. Venture capital investments

The corporation's portfolio of venture capital investments is focused on providing financing to small and medium-sized companies in the agriculture industry. As at March 31, 2005, the corporation does not have significant influence in the companies. All investments are accounted for at cost. The concentrations of venture capital investments are listed below.

(thousands of dollars)		2005		2004
Agriculture biotechnology	$	9,500	$	6,500
Bio-based fuels and chemicals		7,000		3,000
Food processing and manufacturing		5,800		–
Commercial scale primary producers		4,500		–
Agriculture equipment manufacturing		2,328		2,200
Other agriculture		2,000		2,000
	$	31,128	$	13,700

Investments are normally held for between three and seven years through a variety of instruments. Carrying value by type of investment is as follows:

(thousands of dollars)	2005	2004
Common shares	$ 8,000	$ 1,000
Preferred shares	3,500	3,500
Debentures	19,628	9,200
	$ 31,128	$ 13,700

The corporation has loans receivable from venture capital investees in the amount of $24.6 million (2004- $5.7 million) that are in addition to the above investments.

7. Equipment and leasehold improvements

	2005			2004
(thousands of dollars)	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	$ 13,038	$ 7,482	$ 5,556	$ 5,758
Computer equipment and software	41,663	26,377	15,286	17,198
Leasehold improvements	15,836	8,335	7,501	6,927
	$ 70,537	$ 42,194	$ 28,343	$ 29,883

Amortization of equipment and leasehold improvements of $9.3 million (2004 – $8.5 million) is included in administration expenses.

8. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Short-term debt

Short-term debt consists of promissory notes payable within one year totalling $2,729.9 million (2004 – $2,075.6 million). The effective interest rate on these notes ranges from 1.96% to 2.84% (2004 – 0.95% to 2.72%) with an average yield to maturity of 2.49% (2004 – 2.28%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 11, 2004, the corporation renewed a revolving credit facility providing access to funds in the amount of $50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2005, there were no draws on this facility.

The corporation also has a demand operating line of credit which provides overdraft protection in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2005, the balance was $3.8 million (2004 – $0.8 million).

Long-term debt

(thousands of dollars)	2005	2004
Debt from capital markets, secured by notes payable in:		
Canadian dollars	$ 6,475,797	$ 6,278,702
United States dollars ($239.0 million)	289,286	254,004
Japanese yen (¥52.5 billion)	593,040	516,052
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:		
The Euro Top 100 Index	15,700	15,700
	$ 7,373,823	$ 7,064,458

Debt with index-linked interest payments does not provide periodic interest payments but, upon maturity, provides the purchaser with a single payment based on the change in the underlying equity or bond index. The corporation has entered into swap agreements that offset all index-linked interest payments in exchange for periodic payments calculated at an agreed-upon interest rate.

Debt payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Long-term debt maturities based on final maturity date are as follows:

(thousands of dollars)	2005	2004
Amounts due:		
Within 1 year	$ 1,693,235	$ 1,367,311
From 1 – 2 years	1,124,471	1,516,879
From 2 – 3 years	883,542	836,718
From 3 – 4 years	535,819	596,187
From 4 – 5 years	262,702	488,337
Over 5 years	2,874,054	2,259,026
	$ 7,373,823	$ 7,064,458

Included in long-term debt are $1,808.3 million (2004 – $2,187.9 million) of instruments extendable beyond their original due dates and $1,202.8 million (2004 – $266.8 million) of callable debt. The redemption of these debt instruments is controllable by the corporation. At the inception of these debt instruments, derivative swap agreements are entered into concurrently to hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the debt instrument if the counterparty exercises its right to terminate the related derivative swap agreement.

9. Other liabilities

(thousands of dollars)	2005	2004
Accrued benefit liability – other benefits	$ 20,405	$ 17,396
Unrealized foreign exchange	81,992	(482)
Deferred revenues	654	417
Other	399	714
	$ 103,450	$ 18,045

10. Administration expenses

(thousands of dollars)	2005	2004
Personnel	$ 88,463	$ 80,662
Facilities and equipment	19,719	19,750
Professional and other	24,876	18,973
Travel and training	10,647	9,557
	$ 143,705	$ 128,942

11. Employee future benefits

Description of benefit plans

The corporation has three funded defined benefit pension plans, an unfunded defined benefit plan, which includes post-employment and post-retirement benefits, as well as a defined contribution pension plan, that provides pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans are based on years of service and final average salary.

Other retirement benefit plans are contributory health-care plans with employee contributions adjusted annually, and non-contributory life insurance plans. A plan also provides short-term disability and long-term disability income benefits after employment, but before retirement.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, was $9.2 million (2004 – $7.9 million).

Transfer of assets

As of July 1, 2000, the corporation began administering its own pension plans for its employees. Previously, employees participated in the Public Service Superannuation Act (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the corporation signed a Pension Transfer Agreement with the Government of Canada that provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elected to transfer past service, the transfer of assets is virtually complete.

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2002. The next required valuation would be as of December 31, 2005.

(thousands of dollars)	**2005** Pension Benefits	**2004** Pension Benefits	**2005** Other Benefits	**2004** Other Benefits
Change in benefit obligation:				
Accrued benefit obligation				
Balance at beginning of year	$ 143,461	$ 127,009	$ 23,199	$ 17,876
Current service cost	5,697	4,939	1,757	1,404
Interest cost	9,499	9,266	1,562	1,288
Employee contributions	2,387	1,980	–	–
Benefits paid	(2,736)	(2,648)	(645)	(658)
Actuarial losses	16,902	2,915	2,207	3,289
Benefit obligation at end of year	$ 175,210	$ 143,461	$ 28,080	$ 23,199
Change in fair value of assets:				
Fair value of plan assets				
Balance at beginning of year	$ 156,587	$ 120,994	$ –	$ –
Actual return on plan assets	20,376	31,460	–	–
Employer contributions	7,037	4,801	–	–
Employee contributions	2,387	1,980	–	–
Benefits paid	(2,736)	(2,648)	–	–
Fair value of assets at end of year	$ 183,651	$ 156,587	$ –	$ –
Reconciliation of funded status:				
Fair value of plan assets	$ 183,651	$ 156,587	$ –	$ –
Accrued benefit obligation	175,210	143,461	28,080	23,199
Funded status of plans – surplus (deficit)	8,441	13,126	(28,080)	(23,199)
Unamortized net actuarial (gain) loss	(6,337)	(13,102)	7,675	5,803
Employer contributions after December 31	1,481	2,453	–	–
Net prepaid (accrued) benefit expense at end of year	$ 3,585	$ 2,477	$ (20,405)	$ (17,396)
Recorded in:				
Other assets	$ 3,585	$ 2,477	$ –	$ –
Other liabilities	–	–	(20,405)	(17,396)
Net prepaid (accrued) benefit expense at end of year	$ 3,585	$ 2,477	$ (20,405)	$ (17,396)

Defined benefit costs

(thousands of dollars)		**2005** Pension Benefits		**2004** Pension Benefits		**2005** Other Benefits		**2004** Other Benefits
Elements of defined benefit costs:								
Current service cost	$	5,697	$	4,939	$	1,757	$	1,404
Interest cost		9,499		9,266		1,562		1,288
Actual return on plan assets		(20,376)		(31,460)		–		–
Actuarial losses		16,902		2,915		2,207		3,289
Net cost (income) before adjustments		11,722		(14,340)		5,526		5,981
Adjustments to recognize long-term nature of employee future benefit costs:								
Difference between expected return and actual return on plans assets for the year		10,225a		22,969a		–		–
Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation for year		(16,991)b		(2,887)b		(1,873)c		(3,157)c
Defined benefit costs recognized	$	4,956	$	5,742	$	3,653	$	2,824

(a) Expected return on plan assets of $(10,151) (2004 – $(8,491)) less the actual return on plan assets of $(20,376) (2004 – $(31,460)) = $10,225 (2004 – $22,969).

(b) Actuarial (gain) loss recognized for year of $(89) (2004 – $28) less actual actuarial (gain) loss on accrued benefit obligation for year of $16,902 (2004 – $2,915) = $(16,991) (2004 – $(2,887)).

(c) Actuarial (gain) loss recognized for year of $334 (2004 – $132) less actual actuarial (gain) loss on accrued benefit obligation for year of $2,207 (2004 – $3,289) = $ (1,873) (2004 – $(3,157)).

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

(thousands of dollars)		**2005** Pension Benefits		**2004** Pension Benefits		**2005** Other Benefits		**2004** Other Benefits
Accrued benefit obligation	$	2,352	$	1,816	$	28,080	$	23,199
Fair value of plan assets		–		–		–		–
Funded status – plan deficit	$	(2,352)	$	(1,816)	$	(28,080)	$	(23,199)

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2005 Pension Benefits	**2004** Pension Benefits	**2005** Other Benefits*	**2004** Other Benefits*
Accrued benefit obligation as of December 31:				
Discount rate	6.00%	6.50%	6.00/5.25%	6.50/5.25%
Rate of compensation increase	3.50%	3.50%	4.00/4.00%	4.00/4.00%
Benefit costs for years ended December 31:				
Discount rate	6.00%	6.50%	6.50/5.25%	7.00/5.75%
Expected long-term rate of return on plan assets	6.00%	6.50%	Nil%	Nil%
Rate of compensation increase	3.50%	3.50%	4.00/4.00%	4.00/4.00%

*Percentages reflect post-retirement benefits/post-employment benefits respectively.

Assumed health-care cost trend rates at December 31:

	2005	2004
Hospital:		
Initial rate	8.00%	8.00%
Ultimate rate	Nil%	Nil%
Year ultimate rate reached	2012	2012
Prescription drugs:		
Initial rate	10.30%	10.33%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2012	2012
Other health-care costs:		
Per annum increase*	4.00%/3.00%	4.00%/4.00%

*Percentages reflect post-retirement benefits/post-employment benefits respectively.

Sensitivity analysis

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one-percentage-point change in assumed health-care cost trend rates would have the following effects for 2005:

(thousands of dollars)	Increase	Decrease
Total of service and interest cost	$ 557	$ (402)
Accrued benefit obligation	4,339	(3,214)

Plan assets

The percentage of plan assets based on market values at December 31 are:

	2005	2004
Equity securities	65.0%	62.8%
Debt securities	34.7%	36.1%
Other	0.3%	1.1%
Total	100.0%	100.0%

Defined contribution plan

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. For the year ended March 31, 2005, the expense was $1.9 million (2004 – $1.2 million).

12. Derivative financial instruments

Description of derivatives

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The following are detailed descriptions of some of the more prominent derivative instruments used by the corporation to mitigate risk:

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Equity index-linked swaps are transactions used to eliminate exposure to movements in a bond or equity index on a debt issue undertaken by the corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed-upon bond or equity and the other a short-term interest rate index. The principal amount may or may not be exchanged at both inception and maturity.

Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Currency forward contracts are transactions to either buy or sell currencies at specified dates and prices in the future.

Notional amounts

Notional principal amounts outstanding at March 31, 2005, for the various derivative financial instruments are:

Remaining term to maturity *(thousands of dollars)*		Within 1 year	1 to 5 years	Over 5 years	2005	2004
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 190,000	$ 110,000	$ –	$ 300,000	$ 320,000
Fixed	Floating	9,456,841	1,285,675	66,609	10,809,125	8,502,716
Floating	Floating	–	–	–	–	–
Equity index-linked	Floating	15,700	–	–	15,700	15,700
Cross-currency	Floating	948,182	–	–	948,182	735,233
		10,610,723	1,395,675	66,609	12,073,007	9,573,649
Currency forward contracts						
Receive	*Pay*					
USD fixed	CDN fixed	27,132	–	–	27,132	–
Total		$ 10,637,855	$ 1,395,675	$ 66,609	$ 12,100,139	$ 9,573,649

Counterparty credit risk and fair values

The counterparty credit risk associated with derivatives is the risk of loss due to the failure of a counterparty to discharge its obligations in a derivative financial instrument agreement. The counterparty obligation may arise when currency and interest differentials occur resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments.

The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Credit risk, or counterparty risk, is managed via the corporation's Board approved Counterparty Risk Guidelines, which specifies the maximum exposure that the corporation will accept for each level of credit rating. Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes are in place with primary derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

Counterparty credit risk is represented by replacement cost, which is the cost of replacing all derivative contracts that have a positive fair value. Net fair value represents the total of positive and negative fair values of all derivative financial instruments. The net fair values and replacement costs of the derivative instruments are as follows:

	2005			2004		
(thousands of dollars)	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Interest rate swap contracts	$ 42,422	$ 23,963	$ 18,459	$ 77,376	$ 15,395	$ 61,981
Cross-currency interest rate swap contracts	2,648	89,512	(86,864)	14,524	27,715	(13,191)
Equity indexed contracts	–	895	(895)	–	970	(970)
Currency swap contracts	–	3,982	(3,982)	–	–	–
Total fair value	**$ 45,070**	**$ 118,352**	**$ (73,282)**	**$ 91,900**	**$ 44,080**	**$ 47,820**
Less impact of master netting agreements	30,578	30,578	–	38,711	38,711	–
Total	**$ 14,492**	**$ 87,774**	**$ (73,282)**	**$ 53,189**	**$ 5,369**	**$ 47,820**

The derivative contracts entered into by FCC are over-the-counter instruments. Fair values are determined using present value techniques and quoted market values. Quoted market values are obtained from the counterparty for some derivative instruments. The fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, some of which are about unobservable market parameters. As such, fair values are estimates involving uncertainties, and may be significantly different when compared to another financial institution's value for a similar contract.

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2005 was $3,226.3 million (2004 – $3,103.5 million) and the largest net fair value of contracts with any institution as at March 31, 2005, was $3.8 million (2004 – $18.0 million). The notional amounts of the financial instruments reported by the corporation are not indicative of either the market or credit risk associated with the contracts. The risk of loss is related solely to the possibility that a counterparty to a transaction does not perform as agreed. The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties. These agreements create the legal right of offset of exposure in the event of default.

Derivative related amounts – assets and liabilities

Amounts due from counterparties under swap contracts included in accounts receivable at March 31, 2005 were $23.9 million (2004 – $17.9 million). Amounts payable to counterparties under swap contracts included in accounts payable and accrued liabilities at March 31, 2005 were $3.5 million (2004 – $4.4 million).

Unrealized gains and losses on foreign currency exchange contracts included in accounts payable and accrued liabilities at March 31, 2005 were $2.8 million (2004 – nil) and in other liabilities at March 31, 2005 were $82.0 million (2004 – ($0.5) million).

13. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date. The fair values are determined using the valuation methods and assumptions described below. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair values of derivative financial instruments are not included in the table below and are presented in Note 12.

	2005		2004	
(thousands of dollars)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	$ 318,062	$ 318,062	$ 149,409	$ 149,409
Temporary investments	268,743	268,743	328,823	328,823
Accounts receivable	67,097	67,097	37,924	37,924
Loans receivable – net	10,687,450	10,796,693	9,633,697	9,836,179
Venture capital investments	31,128	31,128	13,700	13,700
Other assets	3,649	3,649	6,737	6,737
Liabilities				
Accounts payable and accrued liabilities	$ 36,097	$ 36,097	$ 31,467	$ 31,467
Accrued interest on borrowings	77,167	77,167	69,097	69,097
Short-term debt	2,729,907	2,729,907	2,075,593	2,075,593
Long-term debt	7,373,823	7,484,424	7,064,458	7,164,180

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and cash equivalents, temporary investments, accounts receivable, other assets, accounts payable and accrued liabilities, accrued interest on borrowings, and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

- Venture capital investments in shares that are traded on an exchange are valued based on the closing share price as of the date of these financial statements. The investments in debt are valued at book value, which approximates fair value.
- The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts that may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.
- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

14. Guarantees, commitments and contingent liabilities

Guarantees

In the normal course of its business, the corporation issues guarantees and letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2005 is $16.6 million (2004 – $17.9 million). In the event of a call on these guarantees and letters of credit, the corporation has recourse against its customers for amounts to be paid to the third party. Existing items will expire within two years, usually without being drawn upon. No amount has been included in the balance sheet as at March 31, 2005 or March 31, 2004 for these guarantees and letters of credit.

Long-term commitments

Future minimum payments by fiscal year on technology services, operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

(thousands of dollars)		
Within 1 year	$	12,116
From 1 – 2 years		10,884
From 2 – 3 years		9,601
From 3 – 4 years		4,851
From 4 – 5 years		2,897
Over 5 years		6,995
	$	47,344

Loan commitments

As at March 31, 2005, loans to farmers and agribusiness approved but undisbursed amounted to $663.7 million (2004 – $468.9 million). These loans were approved at an average interest rate of 5.38% (2004 – 5.18%) and do not form part of the loans receivable balance until disbursed. In addition, the corporation approved but did not disburse $6.0 million (2004 – $3.0 million) in venture capital investments. It is expected that the majority of these commitments will be disbursed by May 31, 2005.

Contingent liabilities

The corporation, in the normal course of operations, enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements. The indemnification, in certain circumstances, may require the corporation to compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnification. No amount has been included in the balance sheet as at March 31, 2005 or March 31, 2004 for these indemnifications.

The corporation's contingent liabilities include creditor life and accident insurance policies, which are sold to customers under the Agri-Assurances program. The corporation is exposed to risk to the extent that claims may exceed premiums collected. The program is administered by a major insurance provider and is based on premiums that are actuarially sound. Risk exposure is further mitigated by a claims fluctuation reserve. Historically premiums have significantly exceeded claims.

15. Interest rate risk

The corporation is exposed to interest rate risk as a consequence of the mismatch, or gap, between the remaining term to maturity or repricing and interest rate sensitivity of its assets and liabilities. The corporation uses derivative financial instruments to manage its interest rate risk. The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, liabilities and equity, grouped by the earlier of contractual repricing or maturity dates and interest rate sensitivity. The corporation's borrowings are also shown net of the derivative financial instruments entered into to manage the corporation's interest rate risk.

Interest rate risk

(thousands of dollars except %)	Floating Rate	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 313,533	$ –	$ –	$ –	$ 4,529	$ 318,062
Effective yield(2)		2.52%					
Temporary investments	–	233,881	33,261	–	–	1,601	268,743
Effective yield(2)		2.59%	2.60 %				
Loans receivable – net	6,885,897	383,226	890,202	2,496,218	202,856	(170,949)	10,687,450
Effective yield(2)	5.09%	7.43%	6.94%	6.77%	7.54%		
Venture capital	–	–	–	16,628	3,000	11,500	31,128
Effective yield(2)				12.43%	10.00%		
Other assets						99,610	99,610
	$ 6,885,897	$ 930,640	$ 923,463	$ 2,512,846	$ 205,856	$ (53,709)	$ 11,404,993
Liabilities							
Borrowings	$ 6,820,000	$ 990,157	$ 853,489	$ 1,224,244	$ 267,856	$ (52,016)	$ 10,103,730
Effective yield(2)	2.52%	2.67%	3.93%	4.31%	4.54%		
Accrued interest						77,167	77,167
Other liabilities						139,547	139,547
Shareholder's Equity						1,084,549	1,084,549
	$ 6,820,000	$ 990,157	$ 853,489	$ 1,224,244	$ 267,856	$ 1,249,247	$ 11,404,993
Total gap 2005	**$ 65,897**	**$ (59,517)**	**$ 69,974**	**$ 1,288,602**	**$ (62,000)**	**$(1,302,956)**	**$ –**
Total gap 2004	$ 215,255	$ (85,921)	$ (203,152)	$ 1,018,634	$ 177,566	$(1,122,382)	$ –

Assumptions:

(1) The financial Assets and Liabilities have been presented in the gap table based on the earlier of their contractual repricing or maturity date. In the normal course of business, loan customers frequently prepay their loans in part of in full prior to the contractual maturity date.

(2) Represents the weighted-average effective yield based on the earlier of contractual repricing or maturity date.

16. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business.

17. Segmented information

The Corporation is organized and managed as a single business segment being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's sales are within Canada. No one customer comprises more than 10 per cent of the corporation's receivables or interest revenues.

18. Comparative figures

Certain 2004 comparative figures have been reclassified to conform to the current year's presentation.

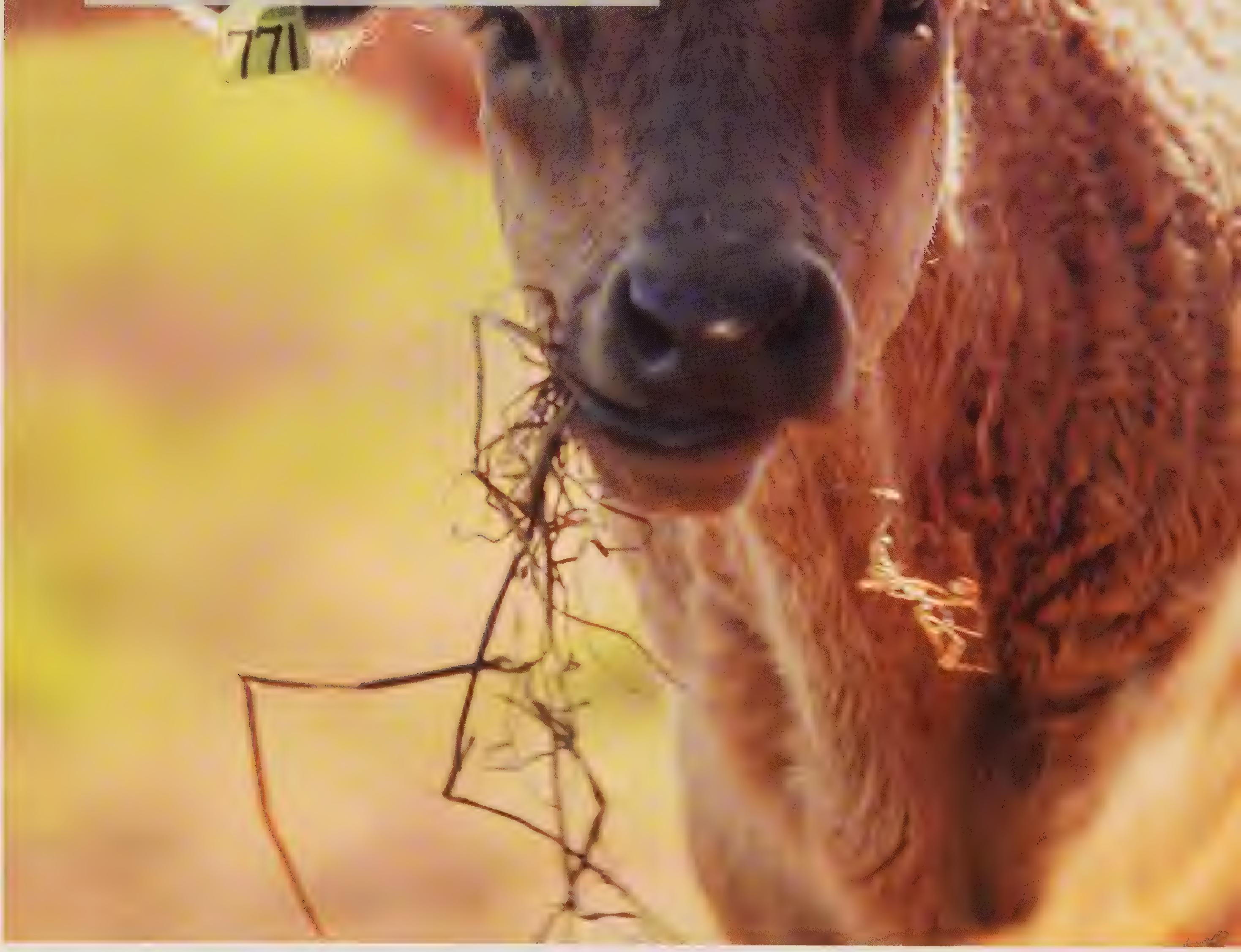
2005-10 strategic objectives

In 2004-05, FCC revised the strategy map that describes how the organization intends to create sustained value. The map is designed to identify and communicate the four strategic themes and corporate objectives that FCC has chosen to pursue to achieve the corporate vision.

The objectives are grouped according to the following new strategic themes:

- Strengthen market presence
- Enhance customer experience
- Optimize execution and performance
- Sustain commitment to agriculture

In the five-year planning period, from 2005 through 2010, greater emphasis will be placed on the internal capability perspective. Enhancing business processes and information technology architecture will support our ability to take the customer experience to the next level.



FCC Balanced Scorecard 2005-10

trengthen market presence

CC will strengthen its presence in the agricultural financing marketplace, promoting the value FCC delivers with all customers, partners and all akeholders and across all channels. This means continuing to build visibility to raise awareness of FCC's full offerings: relationships, expertise and oducts and services tailored to agriculture.

05-10 Strategic Objectives	Measures	2005-06 Targets	2005-06 Initiatives
nancial come Growth	Portfolio growth	5.44%	
	Non-Interest Revenue	$11.9 million	
	Net Interest Income Margin	3.11%	
ustomer nderstands business, ancial, and lationship needs tract customer and isiness relationships	New customer acquisition – all channels	Q1 Farm Finance targets Q3 AgExpert targets and begin reporting against AgriSuccess targets[1]	Design business development strategies for each FCC business line Deliver a customer experience that results in vocal ambassadors Leverage relationships with centers of influence (accountants, lawyers, realtors and others) in order to attract new customers
	Venture capital • Interest and fee income amount • Amount co-invested • Capital invested	 – $2.6M – Co-investment ratio of 1.3:1 – $18.0M	Expand venture capital in line with funding from federal government in order to better serve the agriculture industry and attract additional co-investment
	Market share at 20.70%	Set targets by business line	Expand target market reporting ability by business line
ternal capability elationship selling, anagement of all CC Solutions rtfolio/Risk anagement nsistent brand-arketing of FCC's l capabilities rategic integrated anning	Time spent with customers and prospects for value-added activities	Develop work plan and set targets for following fiscal years	Redesign key processes to enable more time with customers Enhance portfolio risk management tools and processes to optimize portfolio composition and return Create integrated marketing communication strategy to raise visibility and create awareness of FCC's spectrum of offerings and commitment to agriculture

[1] Quarterly targets were adjusted slightly at the beginning of fiscal 2005-06.

FCC Balanced Scorecard 2005-10

Enhance customer experience

FCC will enhance the customer experience and customer perceptions of FCC. When customers choose FCC, we want them to feel they are choosing Canada's leader in the industry. Our focus will be on enabling FCC's ability to build and expand strong relationships with customers as a contributor to their success.

2005-10 Strategic Objectives	Measures	2005-06 Targets	2005-06 Initiatives
Financial Return on equity and investment	Return on equity	11.49%	
Customer Anticipates and offers tailored, preferred solutions across channels Build and expand relationships across channels	Customer experience index	Q3 Establish baseline Q4 Set targets	Define components of customer experience and build index
	Total value penetration[2]	Q1 Set targets	Create tools to support employees' ability to tailor full spectrum of FCC's offerings to customer needs Create products and services uniquely tailored to satisfying customer needs and exceeding their expectations
	Channel usage • # of unique website visitors per year • # of website pages visited per year • # of online registered borrowers • # of CSC customer contacts • $ disbursed of CSC direct full service lending	 • Establish baseline and set targets • 1.4 million • 10,000 • 80,000 • $155 million	Execute online and CSC (call centre) strategies to provide customers with enhanced service via their channel of choice
Internal capability Seamless, cross-channel integration to deliver sales, service Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management	Customer value management Customer channel awareness, preferences and permissions	Establish approach Establish approach	Investigate approach to measuring customer value Create integrated and streamlined processes for offering full spectrum of products and services to enhance the customer experience across channels (Farm Finance, Agribusiness, Alliance and Dealer loans as well as "solution sales," such as insurance, AgExpert, AgriSuccess training, etc.). These processes will be deployed to employees through a single user interface to make it easy for them to serve customers, which will create the capacity and ease of execution necessary to handle sales growth Enhance the integration of lending policy across business lines

[2] Measure title changed from "Total value proposition" to "Total value penetration" at beginning of fiscal 2005-06.

FCC Balanced Scorecard 2005-10

Optimize execution and performance

FCC's organizational capabilities will strengthen the ability to deliver a unique, best-in-class customer experience. The integration of FCC's processes, technology and resources will be optimized to deliver efficient, cost-effective and quality solutions to the benefit of customers and the agriculture industry.

05-10 Strategic Objectives	Measures	2005-06 Targets	2005-06 Initiatives
nancial alance sheet optimization	Efficiency ratio	Between 40% and 45%	Re-evaluate arrears targets in relation to the changing portfolio
	Debt-to-equity	Under 10:1	
	% of PND with arrears	6%	
	SCRM	Managed range: between 55 and 70	
ustomer ontinuously delivers onsistent, efficient uality service etain customers and grow yalty efficiently			Revise environmental policy and process to meet new legislative requirements Revamp forms management Create enterprise records management strategy and implement document imaging solution Research and evaluate user identity management to increase efficiency and safeguard customer
ternal capability ocess innovation and ontinuous improvement tegrated value chain ocess redesign gile, integrated IT lutions delivery mplified, flexible business/ architecture and andards fective project execution, anagement and control platform reliability and erformance rategy execution, nterprise Risk anagement nterprise services delivery, anagement	Process improvements and quick wins benefits realized	EVC baseline and business case Create business cases to measure "quick wins" process redesign and loan renewals Track benefits of business case	**Enterprise Integration** Create corporate content management strategy and content management framework to standardize FCC's enterprise-wide approach to content development, deployment and governance Internal control framework – implement framework to maintain and enhance controls through process and system design Redesign loan maintenance process **Information Technology** Upgrade FCC network Create integrated test environment Determine loan management system replacement Enterprise and back office application architecture integration Enhance business platforms **Enterprise Risk Management** Carry out enterprise risk management process and incorporate into strategic plan process and risk mitigation activities Increase focus on business strategy execution with enhanced metrics and cascaded objectives Complete installation of capacity planning
	IT architecture capability	67% of key architectural framework elements implemented	
	User acceptance (performance, reliability and usability)	Q3 Establish baseline and preliminary targets mid-year	
	Project management maturity[3]	Establish approach and set baseline	

[3] Measure title changed from "Project execution capability" to "Project management maturity" at the beginning of fiscal 2005-06.

FCC Balanced Scorecard 2005-10

Sustain commitment to agriculture

FCC is committed to helping the agricultural industry succeed as well as contributing to the enhancement of the rural communities where our customer and employees live and work. Strengthening and leveraging FCC's knowledge base and building awareness of agriculture will demonstrate support for the industry and customers.

2005-10 Strategic Objectives	Measures	2005-06 Targets	2005-06 Initiatives
Financial Investment in agriculture			Increase awareness of the value of agriculture in: • Journalism students (Ag 101 on Highway 1) • School-age children (Agriculture in the Classroom) Explore additional initiatives to increase awareness of agriculture industry Promote agriculture and help FCC customers sell their products with FCC initiative, CanadianFarmersMarket.c
Customer Trusted partners and industry catalyst Build industry, stakeholder awareness, credibility and support	Corporate Social Responsibility (CSR) scorecard	Q3 Establish baseline[4] Q4 Set targets for 2006-07	Grow producer knowledge of farm/agribusiness management practices via: • AgriSuccess seminars on topics including succession planning, human resource management, farm financial management and price risk management • Advanced Farm Manager: comprehensive business management training for today's farm owners/managers • Subscriptions to AgriSuccess Journal, highlighting agriculture news and management issues • Explore needs of young farmers Continue community investment with an emphasis on rural safety and food issues (World Food Day, First Aid on the Farm, etc.) Enhanced support for rural communities with AgriSpirit capital giving program Develop CSR scorecard to measure FCC's corporate citizenship
	Corporate Reputation Index	Not applicable	
	Media Favourability Index	Score of 63	Continue to increase quality and quantity of media coverage regarding FCC Target urban publications to educate Canadians regarding agriculture
Internal capability Knowledge management leverage Industry investments and stakeholder relations			Invite customers to participate in select Knowledge Management community of practice events Leverage community of practice (CoP) knowledge to the benefit of customers by adding CoP knowledge to FCC website Conduct program to inform elected officials of FCC's role and offerings

[4] Quarterly targets were adjusted slightly at the beginning of fiscal 2005-06.

FCC Balanced Scorecard 2005-10

eople: The foundation of FCC's strategy

C's commitment to agriculture is founded on the commitment of dedicated employees. This is one of the reasons FCC invests in the people who ome to work every day. Building and sustaining strong customer relationships requires a workforce that is knowledgeable, motivated and innovative.

C believes in fostering leadership at all levels within a culture of respect and accountability. Areas of focus include leadership governance, eating a culture that is customer-focused, knowledge and employee-oriented, aligning performance management and creating strategic competencies nd capabilities.

05-10 Strategic Objectives	Measures	2005-06 Targets	2005-06 Initiatives
trategic enterprise adership ustomer and knowledge ulture	Engagement score	Minimum threshold 80%	Continue implementation of cultural transformation strategy, including coaching employees regarding the cultural practices Deliver leadership training to new managers and supervisors Help develop future leaders via leadership development program
mployee-oriented culture	Engagement driver management	Q1 Establish targets once drivers are confirmed	Identify key drivers and create action plan to continuously improve employee engagement
ligned performance anagement	Employee experience	Q1 Set targets Q2 Begin monitoring and reporting against targets	Define the FCC employee experience and attendant development requirements Provide education and tools to enhance employee ability to serve as brand ambassadors
trategic competencies and apabilities	Strategic competency development	Q3 Set targets Q4 Begin monitoring and reporting against targets	Create opportunities for future employees with Account Manager and co-op student work experience program Explore required strategic competencies to meet FCC's future needs Conduct review of FCC's employee classification system, competency and performance management Deliver field development program

1. **Moyez Somani** – *EVP and Chief Financial Officer*
2. **Rémi Lemoine** – *VP Operations, Atlantic and Eastern Ontario*
3. **Greg Honey** – *Senior VP Human Resources*
4. **Corinna Mitchell-Beaudin** – *VP Portfolio Management*
5. **James Taylor** – *VP Venture Capital*
6. **Mike Hoffort** – *VP Partners and Channels*
7. **John J. Ryan** – *President and Chief Executive Officer*
8. **Sophie MacDonald** – *VP Enterprise Integration and Innovation*
9. **Larry Martina** – *VP Operations, West*
10. **Don Stevens** – *VP and Treasurer*
11. **Paul MacDonald** – *Senior VP and Chief Information Officer*

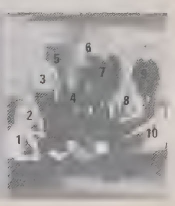
Senior Management Team

The drive to create a great customer experience and make a difference to agriculture unites all employees at FCC. And the Senior Management Team (SMT) is no exception. SMT believes that leadership exists at all levels and that engaged employees create great relationships with customers. To this end, SMT is purposefully creating a culture where every employee is encouraged to share ideas and give constructive feedback to others. We believe that our customers require every employee's contribution to be fully leveraged in creating products and services to help them succeed.

President and CEO John Ryan says leaders empower those around them by creating vision, sharing knowledge, listening to ideas and motivating others to achieve excellence. "SMT is committed to the personal success of each employee and to continual improvement of the workplace environment." Our employees strongly favour this approach. It is no surprise that FCC enjoys very high employee satisfaction, customer loyalty and business results.

Strong relationships with customers and employees are founded on strong communication. In our quest to sustain high performance, leaders are pushing themselves to higher levels of interpersonal communication than ever before – building trust and enabling true dialogue at all levels. At FCC, leaders are expected to obtain high results, but not at the expense of employees. This balance is challenging at times, but essential to sustain high performance.

FCC ranked 35th on the 50 Best Employers in Canada list by The Globe and Mail's Report on Business magazine.



1. **Ross Topp** – *VP Audit and Integrated Risk*
2. **André Tétreault** – *VP Credit Risk*
3. **Paul Daro** – *VP and Chief Technologist*
4. **Kellie Garrett** – *Senior VP Strategy, Knowledge and Reputation*
5. **Dan Bergen*** – *VP Operations, Prairie*
6. **Rick Hoffman** – *VP and Controller*
7. **Alain Gagnon** – *VP Operations, Quebec*
8. **Lyndon Carlson** – *VP Marketing and Portfolio Management*
9. **Bill Dufraimont**** – *VP Operations, Western Ontario*
10. **Greg Stewart** – *Executive VP, Operations*

* Effective April 1, 2005, VP Operations, Western Ontario
** Retired April 16, 2005

FCC is now recognized as one of Canada's best 50 companies to work for. Our story is a model for how business leaders with determination, sensitivity and intelligence can encourage employees to give their absolute best to customers, their communities and each other every day.

John Ryan's drive to build a high-performance organization and genuine respect for other ways of being has been pivotal in attracting and retaining a senior team of professionals with diverse talents and experience. The 21 SMT members are talented and incredibly dedicated to the agriculture industry, customers and employees. They are sought after as best practice leaders in their fields. Many are avid volunteers in their communities.

These are admirable characteristics. What is most noteworthy? SMT's commitment to creating an environment in which people excel is what propels employees to go above and beyond what is expected – to exceed customer expectations.

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2004-05, the salary range for the President and CEO was set at \$240,500 to \$282,900. The salary range for Executive Vice-Presidents was \$155,215 to \$259,865. The salary range for Vice-Presidents was set at \$108,560 to \$190,950. Total compensation paid to SMT was \$3,743,176. This includes compensation paid to the five area vice-presidents who became part of the senior management team in fiscal 2004-05.

Two FCC Vice-Presidents had their heads shaved after \$135,000 was raised by employees for the United Way in Regina.

1. Marie-Andrée Mallette
2. Maurice Kraut
3. Warren Ellis
4. Donna Graham
5. Deborah Whale
6. Don Haliburton
7. Germain Simard
8. John J. Ryan
9. Jack Christie
10. Rosemary Davis
11. Russel Marcoux
12. Joan Meyer

FCC Board of Directors 2004-05

Corporate governance

FCC corporate governance policies are consistent with current best practices for publicly traded companies and government policy as recently expressed by the Hon. Reg Alcock, President of the Treasury Board, in his report to Parliament entitled Meeting the Expectations of Canadians – Review of the Governance Framework for Canada's Crown Corporations.

FCC is governed by the *Farm Credit Canada Act* and reports to Parliament through the Minister of Agriculture and Agri-Food.

FCC's Board of Directors is appointed by FCC's shareholder, the Government of Canada. The Board Chair and the President and CEO are each appointed by the Governor in Council. The Minister of Agriculture and Agri-Food appoints FCC Directors after considering the recommendation of FCC's Nominating Committee. There are 12 people on the Board of Directors; all but the CEO are independent of the business.

The Board of Directors recognizes that effective corporate governance is an ongoing process and it conducts regular reviews of governance practices, ensuring a high level of accountability. The Directors believe that corporate governance practices evolve, depending on the needs and characteristics of the corporation.

FCC's Board of Directors is satisfied that its corporate governance structure is effective and appropriate and addresses the recommendations made by the Auditor General of Canada respecting corporate governance for Crown corporations in her recently published chapter on governance of Crown corporations.

Each year, FCC prepares a five-year corporate plan setting out strategies, capital and operating budget needs. At the end of each year, we submit an annual report providing the details of our performance, governance policies and practices.

The Auditor General of Canada reviews our statements every year and conducts a special examination every five years. This is a value-for-money audit and is designed to focus on the financial and management controls, information systems and management practices maintained by FCC. Our most recent special examination was completed November 27, 2002. No significant deficiencies were reported, a significant achievement for a Crown corporation.

Board mandate

The Board oversees FCC's management and performance in the best interests of the corporation, agriculture, agribusiness, Canadians and the Government of Canada.

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. A new written charter and a related set of Board governance guidelines have been adopted. These documents articulate the Board's responsibilities in six major areas:

- Integrity – legal and ethical conduct – setting the tone at the top;
- Strategic planning;
- Financial reporting and public disclosure;
- Risk management and internal controls;
- Leadership development and succession planning; and,
- Corporate governance – including director orientation, continuing education and evaluation.

Independence

With the exception of the CEO, all Board members are independent of management. The FCC Board Chair and committee chairs are independent. The independent members of the Board meet in private, without management present, at every regular meeting.

Nominating Committee

This year, the Board established a Nominating Committee comprised entirely of independent members. Chair and Director profiles were approved. These profiles establish desirable qualifications and experience for Directors and the Board Chair. These profiles help the Nominating Committee evaluate candidates for possible appointment to the FCC Board. This merit-based process starts by gathering the names of interested individuals recommended by senior management or board members and securing detailed resumés. This process helps to identify gaps in the desired skill sets represented by the Board as a whole when recommending appointments to FCC's Minister.

Board evaluation

Through a structured process of self-evaluation, the Board continually assesses its collective performance and the individual performance of its members, looking for ways to improve. With the help of outside counsel, the Board identifies areas where change may be required in order to achieve governance best practices.

Public policy role

As a federal Crown corporation, FCC serves a public policy role. Our mission is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. We fulfil this mission by offering loans and business services to meet the needs of the industry, operating on a financially self-sustaining basis.

The Board ensures that public policy is considered in all decisions concerning strategic initiatives, including the portfolio vision, long-term employee incentives and the development of new loans and business services designed to help FCC customers and to continue to help the industry succeed.

Integrity, code of business conduct and ethics

All Board members are subject to the Board's policy governing loans where a Director has a material interest. In addition, the corporation's bylaws prescribe rules for dealing with situations where a Director has a conflict of interest. FCC Directors also follow the rules provided in the Financial Administration Act (Canada) and the Conflict of Interest Code for Public Office Holders.

This year, the Board adopted a new code of conduct and ethics that applies to all staff and the Board of Directors. FCC's previous code of conduct was contained in its Human Resources policy.

This code establishes the position of Integrity Officer within the corporation, who will be responsible for providing general advice and ongoing education concerning the code. The Integrity Officer is also responsible for the investigation of disclosures of possible wrongdoing and protecting individuals who make such disclosures from reprisal.

Strategic planning

The Board leads the corporation in the achievement of long-term goals by overseeing the strategic planning process and providing input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plan has been approved, the Board provides ongoing support to implement and measure the success of those plans and initiatives.

Each year, typically in August, the Board and senior management participates in a joint planning session. At that session, the Board receives a report from management on enterprise risk management. All of FCC's strategies include measurable targets to gauge performance. Following the planning session, management begins drafting the corporation's corporate plan, which is presented for approval in principle in the fall and for final approval in December or January.

The Board discusses particular strategic initiatives throughout the year and is responsible for approving the FCC corporate plan and annual report, and setting the annual goals and objectives of the CEO.

Enterprise risk management

The corporation's enterprise risk management process continues to evolve. It is designed to identify potential events that may affect FCC, to manage risk to be within FCC's risk appetite and to provide reasonable assurance regarding the achievement of FCC goals and objectives.

Senior management holds primary responsibility for identifying risks and designing and implementing solutions to mitigate them. The Board requires that management assure risks are being managed and that appropriate authorities and controls are in place.

Each year, FCC staff follow a prescribed process to identify risks. The risks identified are then prioritized by senior management and presented to the Board, together with risk mitigation plans. Six months later, a progress report is made to the Audit Committee.

Succession planning

This year, the Board made special effort concerning the reappointment of the FCC President and CEO, whose current term expires at the end of August 2005.

The Board, through its Human Resources Committee, annually reviews the corporation's succession plans for key positions and leadership development initiatives. Succession planning ensures there is continuity throughout the organization over the long term. The review identifies employees ready to take over a particular position and others who might be developed for leadership positions over time.

The committee encourages management to identify as many people as possible for advancement to ensure a breadth and depth of experience and expertise. This allows for a progression to the executive level, supplemented by outside experience when necessary.

Integrity of internal controls and management information systems

The Board is committed to financial transparency, and works closely with the Office of the Auditor General to ensure the integrity of FCC internal controls and management information systems.

Each year, the Board reviews lending targets for the next fiscal year, as well as FCC's market development plan and portfolio vision.

FCC treasury operations are key to the corporation's overall success. The Board reviews the operations of Treasury at each meeting and regularly reviews and updates, as necessary, policies and limits. The Board has also engaged an outside consultant, expert in these areas, to assist its review.

Credit risk is the single largest risk that the corporation faces. The Board oversees the corporation's analysis and reporting of overall credit risk and the performance and health of the FCC loan portfolio.

Finally, the Board oversees the annual audit plan. This includes the audit of the corporation's financial statements by the Auditor General of Canada and the annual audit workplan carried out by the corporation's internal audit division.

Orientation and continuing education

Upon appointment to the Board, each member receives a detailed orientation and meets with the senior management to learn about the business. Board members also have direct access to the Senior Management Team for ongoing education.

To gain understanding of the FCC business and the current issues facing the corporation, this year, the Board participated in training sessions related to FCC treasury operations and the corporation's use of derivatives. Directors also participated in an information technology fair, which provided them with hands-on exposure to FCC's information technology systems and future plans. Each year, as part of the off-site strategic planning session, the Board visits a number of customer operations, creating better understanding of the depth and scope of Canadian agriculture and the issues facing primary producers and agribusiness operators.

Composition of the Board

The Board is composed of 12 members, including the Chair and President and Chief Executive Officer.

The Governor in Council appoints the Chair and the President and Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with Governor in Council approval. Directors serve two or three-year terms and may be re-appointed.

Board members are generally successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, cultural, age and language – in order to reflect the broad spectrum of agriculture in Canada.

Board remuneration

Directors are paid an annual retainer and per diems. Amounts are set by the Governor in Council pursuant to the Financial Administration Act. The rates were last approved on April 5, 2001.

- The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended.
- Committee Chairs receive an annual retainer of $6,400 and a per diem of $375 for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended.
- Directors are also reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals while performing their duties.

During 2004-05, there were six board meetings and 22 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $180,419, compared to $178,013 in 2003-04. Total Board travel and related expenses were $148,454, compared to $176,913 in 2003-04. Each year, the amounts reported include per diems and travel expenses for Board members who attended FCC's annual area employee conferences, as well as external seminars and continuing education workshops.

2004-2005 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)[1]	Committee meeting attendance[2]	Board meeting attendance[3]	Board travel and related expenses
Jack Christie	5,400	8,250	13,650	9/11	5/6	10,353
Rosemary Davis	10,800	12,180	22,980	22/22	6/6	14,936
Warren Ellis	6,400	12,375	18,775	11/11	6/6	24,205
Donna Graham	5,400	11,625	17,025	13/13	6/6	15,848
Don Haliburton	5,400	7,125	12,525	13/13	6/6	7,013
Maurice Kraut	5,400	12,000	17,400	6/6	6/6	10,879
Marie-Andrée Mallette	6,400	11,250	17,650	15/15	6/6	19,109
Russel Marcoux	5,400	7,500	12,900	16/16	6/6	10,363
Joan Meyer	6,400	9,188	15,588	12/12	6/6	6,784
Germain Simard	5,400	11,063	16,463	9/9	5/5	19,412
Deborah Whale	5,900	9,563	15,463	13/16	6/6	9,552
Total	$ [illegible]	$ [illegible]	$ 180,419			$ [illegible]

1 Column A (Board retainer) and column B (Per diems)

2 There were seven Audit, six Human Resources, five Corporate Governance and four Nominating Committee meetings

3 There were six Board meetings

New appointments

On March 11, 2005, R. Claude Ménard of Granby, Quebec was appointed to the FCC Board of Directors to replace Germain Simard, whose term expired. Mr. Ménard did not participate in any meeting of the Board of Directors during the 2004-05 fiscal year.

Audit Committee

Chair: Marie-Andrée Mallette

Members: Rosemary Davis (Board Chair), Donna Graham, Maurice Kraut, Germain Simard, Don Haliburton, Jack Christie

Members of the Audit Committee are independent of management. All committee members are financially literate and several members are considered to be financial experts, two terms now commonly used with respect to the composition of audit committees.

The Audit Committee oversees FCC's financial performance, ensuring the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems, integrated risk management processes and audit functions. Recommendations from the Audit Committee are brought to the Board as required.

This committee meets regularly with representatives of the Office of the Auditor General and FCC internal auditors, without management present.

Human Resources Committee

Chair: Warren Ellis

Members: Rosemary Davis (Board Chair), John J. Ryan (CEO), Donna Graham, Joan Meyer, Russel Marcoux, Don Haliburton, Deborah Whale

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for identifying the skills and characteristics essential to the position of Chief Executive Officer and for establishing a process to assess performance and agree to an annual development plan.

The Human Resources Committee is also responsible for reviewing employee compensation and the corporation's succession plan, including plans for training and development of all employees. It also reviews the Executive Perquisites Program with respect to senior management.

Corporate Governance Committee

Chair: Joan Meyer

Members: Rosemary Davis (Board Chair), John J. Ryan (CEO), Marie-Andrée Mallette, Germain Simard, Russel Marcoux, Jack Christie, Deborah Whale

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices, including the updating of Board practices and procedures related to conducting meetings, their frequency and length, the kind of materials and information provided to board members and the reporting of meetings.

The Corporate Governance Committee also regularly reviews the number, structure, composition and mandates of the Board's committees and monitors their performance and oversees the Board's policies with respect to ethics, conflict of interest and code of conduct for Directors.

Nominating Committee

Chair: Deborah Whale

Members: Rosemary Davis (Board Chair), Warren Ellis, Marie-Andrée Mallette, Russel Marcoux

This committee is responsible for reviewing the qualifications of possible candidates and making recommendations to the Board and Minister regarding the appointment of the President/CEO and new members to the FCC Board of Directors.

Pension Committee

Board Representatives: Maurice Kraut and Russel Marcoux

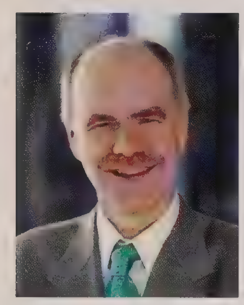
The Board of Directors provides representation on the corporation's Pension Committee to oversee the administration of pension plans, including the investment guidelines, the appointment of the pension fund managers and any material changes to the benefits granted to retiring employees. In addition to two Board members, the committee includes senior management representatives and elected employees.

Board of Directors

Rosemary Davis

Rosemary Davis, Chair since June 20, 2000, Director since December 19, 1995

With more than 30 years of experience in the agriculture industry, Rosemary Davis is the owner/manager of Tri-County Agromart Ltd. in Trenton, Ontario. Ms. Davis is active on many local and provincial agriculture committees and associations. She is a director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. She is a member of the Fertilizer Institute of Ontario's Fertilizer Use Committee, the Ontario Federation of Agriculture and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership in the Ontario Institute of Agrologists. She resides in Cobourg, Ontario.



Jack Christie

Jack Christie, FCA, Director since November 27, 2003

Jack Christie is a Fellow of the Canadian Institute of Chartered Accountants and the General Manager and CEO at Northumberland Dairy Co-operative Ltd. in New Brunswick, where he has been for the past 17 years. Mr. Christie is also a director and past-president of the Atlantic Dairy Council, and the president of the New Brunswick Milk Dealers' Association. He has served as president of the New Brunswick Institute of Chartered Accountants and as a member of the Board of Governors of the Canadian Institute of Chartered Accountants. Mr. Christie is the past-president and a member of the Rotary Club of Newcastle and is the treasurer for Enterprise Miramichi.

Warren Ellis

Warren Ellis, Chair, Human Resources Committee, Director since April 4, 1995

Warren Ellis Produce in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley and wheat. Mr. Ellis is president and CEO of O'Leary Potato Packers Ltd., an operation that buys, packs and markets potatoes. In 1994, he was the Atlantic region honoree in Canada's Outstanding Young Farmers Program. In addition to continued support of the Terry Fox Foundation, Mr. Ellis has served his community as a board member of the Western School Board and the P.E.I. Lending Authority and as chair of the O'Leary Community Sports Centre and the Potato Blossom Festival. Mr. Ellis is a long-time sponsor and organizer of minor hockey in P.E.I.

Donna Graham

Donna Graham, Director since September 26, 2000

Donna Graham is a managing partner of Graham Farms Vulcan Ltd., a 4,200-acre grain and oilseed operation near Vulcan, Alberta. Ms. Graham has acted as an advisor on agriculture issues to various federal and provincial government departments and served on the boards of Alberta Women in Support of Agriculture and the Canadian Farm Women's Education Council. She has received the Alberta Government Recognition Award for her contribution to the development of recreation and culture in the province and a national 4-H award for her dedication to the 4-H movement. Ms. Graham was chair of protocol for the Southern Alberta Summer Games.


Don Haliburton

Don Haliburton, CA, Director since November 4, 2003

Don Haliburton is a Chartered Accountant with more than 20 years of experience in public practice and in senior management roles with businesses in a number of industries. He is the General Manager of Exchange-a-Blade Ltd., a distributor and remanufacturer of power tool accessories. From 1994 to 2000, he was the Vice-President, Finance, of International Aqua Foods Ltd., a TSE-listed aquaculture company with operations in Canada, the United States and Chile. Mr. Haliburton has been involved with a number of Boards of Directors including Ethics in Action, a non-profit organization promoting corporate social responsibility, and Potluck Cafe, a non-profit social enterprise providing food and employment in the Vancouver Downtown Eastside.


Maurice Kraut

Maurice Kraut, Director since June 28, 1999

A co-owner and operator of a cattle and grain farm enterprise, Maurice Kraut has his own firm, Agriculture Consulting, in Winnipeg, Manitoba. He has acted as a livestock marketing and policy analyst for Alberta Agriculture, Food and Rural Development and has taught policy and marketing at the University of Manitoba. Mr. Kraut was a research director for the Canada Grains Council and an assistant deputy minister of agriculture in Manitoba.


Marie-Andrée Mallette

Marie-Andrée Mallette, Chair, Audit Committee, Director since June 16, 1995

Marie-Andrée Mallette participates in large-scale commercial crops and coloured beans operation in Quebec, with a focus on exporting. A lawyer in the agriculture domain for 18 years, Ms. Mallette has served as the regional director of the Quebec Business Women's Association and she founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers and has provided advisory services to exporting companies and agricultural operations seeking equity financing. She is active with the Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association. Ms. Mallette contributes to her community by organizing educational programs at the primary level and by participating in fundraising projects for the Canadian Postal Museum and the Canadian Museum of Civilization in Gatineau, Quebec. Her involvement, in the community and with the industry stakeholders, contributed to the visibility of FCC in the province.


Russel Marcoux

Russel Marcoux, Director since December 10, 2002

Russel Marcoux is the CEO of the Yanke Group of Companies, a firm that specializes in transportation, employing more than 700 staff and operating a fleet of more than 500 trucks. Mr. Marcoux owns and operates a Saskatchewan grain farm. He is actively involved in the Canadian Chamber of Commerce, St. Paul's Hospital in Saskatoon, Saskatchewan and the Children's Health Foundation.

Joan Meyer

Joan Meyer, Chair, Corporate Governance Committee, Director from January 11, 1995 to September 1996, re-appointed September 26, 2000

Joan Meyer is a co-owner and operator of a mixed farming enterprise near Swift Current, Saskatchewan. She owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She serves as a director on a variety of boards at the national, provincial and local level, including Canadian Lutheran World Relief, Sask Culture, Swift Current Housing Authority and the Dr. Noble Irwin Healthcare Foundation.

John J. Ryan

John J. Ryan, Director since September 1, 1997

With more than 30 years of financial leadership experience, John Ryan joined FCC as President and Chief Executive Officer in September 1997.

He currently serves as Past Chairman for the Hospitals of Regina Foundation and is a member of the Board of Directors for Regina's Adult Learning Centre. Mr. Ryan serves on the Board of Directors for the 2005 Canada Summer Games and is a member of the Board of Trustees for the Canadian Athletic Foundation.

A strong proponent of community involvement, Mr. Ryan has worked extensively with the United Way of Regina, serving as a Co-Chair in 1999, Chairman in 2000 and as Chair for the 2001 Leadership Campaign. In 1998 and 2001, he led the CEO Challenge for Habitat for Humanity. In 2002, Mr. Ryan received a Commemorative Medal for the Queen's Golden Jubilee, awarded in recognition of his significant contributions to the people of Canada. In 2004, Mr. Ryan received the Excel Award from the International Association of Business Communicators (IABC). This international award recognizes a CEO who champions effective communication throughout his or her organization.

Germain Simard

Germain Simard, Director since June 6, 1995

Mr. Simard co-owns, with his two sons, the Ferme de L'anse Enr., an operation that includes dairy production, field crops and agro-tourism with on-farm accommodations. From 1971-91, he was president of the Union des Producteurs Agricoles (UPA) of the Saguenay-Lac-Saint-Jean region. For eight years, Mr. Simard served as executive vice-president of the Fédération des Agricotours du Québec and, most recently, as regional president. He is a member of the agri-food co-operative Nutrinor and the Caisse populaire Desjardins. In 2004, Mr. Simard was named Regional Delegate for the Saguenay-Lac-Saint-Jean region during the comprehensive land claim negotiations with the Mamuitun and Natashkuan First Nations.

Deborah Whale

Deborah Whale, Chair, Nominating Committee, Director since November 4, 2003

Deborah Whale is vice-president and co-owner/operator of Clovermead Farms Inc., a commercial dairy and veal production business. She is the chair of the Poultry Industry Council of Canada and was co-chair of the Minister's Advisory Committee, Canadian Food Inspection Agency, chair of the Agriculture Research Institute of Ontario, chair of the Veterinary Infectious Disease Organization and is the vice-chair of the Ontario Farm Products Marketing Commission.

Glossary of terms

Agribusiness
Includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agriculture commodities; businesses on the input side of primary production that supply materials or services to producers such as equipment dealers, cattle co-operatives and input suppliers; and value large, commercial farming operations.

Alliances
Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses
Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Arrears
Arrears are defined as all amounts greater than $500 that are past due.

Asset/Liability Management Committee (ALCO)
A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point
One-hundredth of one per cent, used when describing applicable interest rates or the yield of an investment.

Corporate governance
Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Corporate social responsibility (CSR)
CSR is about accountability and transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society.

Counterparty
The opposite side of a financial transaction, typically another financial institution.

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

Efficiency ratio
A measure of how well resources are used to generate income calculated as administration expenses as a percentage of revenue (composed of net interest income, net lease income and other income).

Enterprise
Specific type of agriculture operation, for example, dairy, cash crops, beef, etc.

Enterprise risk management
The balance of the Corporation's risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives.

Farm Finance
Financing provided to farms that produce raw commodities, e.g. crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agriculture operations of less complexity and scope than those categorized as Agribusiness.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis
A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes at specifically defined periods.

Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans
Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred on debt.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR)
Exposure to a decline in net interest income and capital position as a result of changes in interest rates. Varieties of interest rate risk include prepayment risk, commitment risk and reinvestment risk.

Leverage
The relationship between total liabilities and the equity of a business.

Liquidity risk
The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net disbursements
Represents disbursement of funds against approved loans excluding refinancing of existing FCC loans.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Prepayments
Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Provision for credit losses
The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)
Net income expressed as a percentage of average equity.

Risk Scoring and Pricing System (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic Credit Risk Model (SCRM)
A tool to measure overall credit risk present in the portfolio, which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value-Added
Agriculture businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

Variable interests
Contractual, ownership or other pecuniary interests in an entity that fluctuate with changes in the fair value of the entity's net assets.

Variable interest entity (VIE)
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna

Alberta
Barrhead, Brooks (S), Calgary, Camrose, Drumheller, Falher, Grande Prairie, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, St. Paul (S), Stettler (S), Stony Plain, Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Estevan (S), Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard (S), Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Melita (S), Morden, Neepawa, Portage, Shoal Lake (S), Steinbach, Stonewall (S), Swan River (S), Virden

Ontario
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-Loup, Sherbrooke, Ste-Foy, St-Georges-de-Beauce (S), St-Hyacinthe, St-Jean, St-Jérôme, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick
Moncton, Sussex, Woodstock, Grand Falls

Newfoundland and Labrador
St. John's

Nova Scotia
Truro, Kentville

Prince Edward Island
Charlottetown, Summerside

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– Photography by Greg Hus

Agriculture. It's all we do.

Farm Credit Canada

Cette publication est aussi offerte en français.

Canada

Farm Credit Canada

ANNUAL REPORT 2005 06

The Road to Success

FARM CREDIT CANADA
ANNUAL REPORT 2005-06

THE YEAR IN 10 MINUTES

Time is short. So is this report.

The Road to Success

THE YEAR IN 10 MINUTES

Time is short. So is this report.

Who isn't short on time?

That's why we thought you would enjoy this short version of our annual report.

Who we are

Farm Credit Canada (FCC) helps primary producers and others involved in agriculture to grow, diversify and prosper.

Operating out of 100 offices located primarily in rural Canada, our 1,200 dedicated employees are passionate about the business of agriculture.

We proactively serve the changing needs of the industry, offering customers a variety of customized loans and business services.

FCC is a financially self-sustaining federal Crown corporation. We lend to all sectors of agriculture – primary producers, value added and businesses that provide inputs to the industry. We raise funds through domestic and international capital markets. We reinvest profits in agriculture, developing loans and services to benefit agriculture.

Our portfolio of $12.3 billion and 13 consecutive years of growth are a reflection of our customers' continued confidence in FCC.

Why we exist

Vision

Visionary leaders and trusted partners in finance and management services tailored to agriculture – leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.

Mission

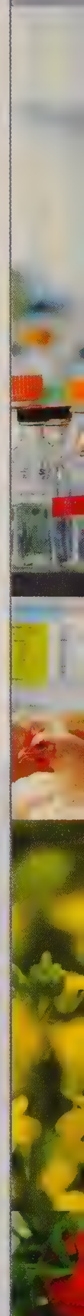
To enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Public Policy

We fulfil our public policy role of enhancing rural Canada by offering loans and services to the agricultural community. Our commitment extends to customers throughout rural Canada with services provided in both official languages. Founded on providing lending services to primary producers, FCC's depth of support now extends to financing the inputs to and outputs from primary production.

FCC is built on solid business principles, which includes assuming an appropriate level of risk.

Our commitment to agriculture is unwavering. We are dedicated to supporting the industry by working with our customers to see them through challenges and to help them take advantage of opportunities.



The FCC Value Proposition

What you can expect from us

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

We focus on the primary producer as well as suppliers and processors along the agricultural value chain. We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it.
We love it. We're in it for the long run.

What we do

We care about our customers and take time to listen, learn and understand their goals. We tailor a combination of solutions, providing financing, equity, insurance, management software, information and learning through our seven business lines. At the end of the day, we want customers to say, “Wow, that was easy. FCC really cares about my success.”

AgProduction
We lend money to primary producers. These include those who produce raw commodities like crops, beef, hogs, poultry, sheep, dairy, fruits, vegetables and alternative livestock or crops.

AgValue
We lend money to those who buy from and sell to primary producers. These are the equipment manufacturers and dealers, input providers, truckers and processors along the agriculture value chain.

AgExpert
We offer Canada's leading management software for agricultural producers – AgExpert Analyst and AgExpert Field Manager. These allow producers to easily produce financial statements, manage their business and track and report important field and crop records.

Alliances
We provide lending services where our customers do business, through a team of equipment dealers, input, livestock and manufacturer partners.

AgriSuccess
We advance farm management practices through information and learning. These include workshops such as managing farm finances, human resources, succession planning and others. We also offer two free publications – our online e-newsletter AgriSuccess Express and AgriSuccess Journal.

Agri-Assurances
We offer loan life and accident insurance tailored to agriculture.

FCC Ventures
We provide equity financing to agriculture-related businesses. These include commercial-scale primary producers, food processors, equipment manufacturers and ag-biotechnology companies.

Additional FCC offerings:

FCC Bonds
We offer a safe investment option for Canadians. FCC Bonds are eligible for use in Registered Retirement Saving Plans (RRSPs), Registered Retirement Income Funds (RRIFs) and Registered Education Savings Plans (RESPs) in addition to a regular investment portfolio. They are available at major brokerage firms and are completely secured by the Government of Canada.

Online Services
We make it easy for customers to do business with us. Customers can check their entire portfolio online, review farmland values reports, use our online Farm Finance Kit, watch commodity futures prices, the weather and news, 24 hours a day, seven days a week.

CanadianFarmersMarket.com
Promoting Canadian agriculture and helping customers market their products are important to us. That's why we promote customer products and services by bringing buyers and sellers together on CanadianFarmersMarket.com. Consumers can purchase Canadian products online, direct from the producer, while learning what Canadian agriculture has to offer.

Corporate Social Responsibility
We care about the communities where our customers and employees live and work. This year, we created a Corporate Social Responsibility (CSR) framework comprised of six categories:

1. corporate governance and management systems;
2. human resources management;
3. community investment and involvement;
4. environment, health and safety;
5. human rights; and
6. customers.

How we behave

Corporate Values

FCC's corporate values represent our core beliefs:

Focus on the customer

We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity

We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Working together

We believe in the power of teamwork. We work together with customers to design services tailored to their needs. We partner with other organizations to benefit our customers.

Give back to the community

We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieving excellence

We are committed to one thing – the success of the Canadian agriculture industry. We set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees achieve their potential.

Cultural practices make perfect

Well, almost

Being perfect isn't the goal. It's about developing and encouraging employees to be the best they can be, whether they work in a field office or hold an executive title. Our cultural practices supplement our corporate values by explicitly outlining the behaviour expected of FCC staff at all times with colleagues, customers, partners, suppliers and stakeholders.

We hold ourselves and each other accountable for:

- our impact on business results and our impact on people;
- delivering on commitments, agreements and promises;
- building and sustaining committed partnerships; and
- creating a safe environment where people can speak up without fear.

We measure our success by how others perceive and respond to our leadership, not by our personal point of view.

We talk straight in a responsible manner. We are committed to the success of others – we do not engage in "conspiracies against" people.

We "listen for" contributions and commitment. We do not listen against people or ideas.

We are highly coachable. We actively seek and listen to coaching.

We clean up and recover quickly.

We acknowledge others often and celebrate both small and large successes.

Corporate Social Responsibility Highlights

For the year ending March 31, 2006

According to the Conference Board of Canada, corporate social responsibility (CSR) is about "transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society."

The following summary was adapted from the Globe and Mail's Report on Business second annual CSR Ranking to measure FCC's progress in six key decision-making, behaviour and performance priority areas.

Corporate Governance and Management	**2004-05**	**2005-06**
Statement of social responsibility	not yet	not yet
Statement of corporate values	yes	yes
Code of business conduct	not yet	yes
Board Chair and company CEO are separate functions	yes	yes
Human Resources Management		
Conducts employee engagement surveys:	yes	yes
• Included in Globe and Mail's Best Employers list for last three years		
• Increased engagement score from 81 (2005) to 84 (2006)		
Provides employees with education and development	yes	yes
Conducts annual market compensation reviews	yes	yes
Policy on diversity and employment equity	yes	yes
Public reports on diversity issues	yes	yes
Offers employees diversity training	yes	yes
Benefits include additional maternity and paternity benefits	yes	yes
Percentage of women on the Board	42	42
Percentage of women on senior management team	14	14
Community Investment		
Policy statement on community donations is available to the public	yes	yes
Calculates donations based on one per cent of profits	yes	yes – 1.19%
Programs are in place to support employee giving and volunteering	yes	yes
Environment, Health and Safety		
Corporate environmental management systems in place, including policies, programs and performance analysis	not yet	not yet
Reports on resource use (energy, materials, water)	not yet	not yet
External reporting on lending environmental risk management	in progress	in progress
Lending environmental risk management policy and processes, including environmental risk assessment (and bio-security)	yes	yes
Offers loans that reduce the environmental impact	yes	yes
Environmental reporting, including policy, programs and initiatives, performance and compliance data	in progress	in progress
Human Rights		
Human Rights policy and code of conduct	yes	yes
Policy/code of conduct governing the supply chain of procured items	not yet	not yet
Customers		
Conduct customer satisfaction surveys	yes	yes
Helps customers market their products:	yes	yes
• 310 customers with 361 listings on CanadianFarmersMarket.com		
Loans to meet the needs of new entrants into agriculture	yes	yes – 9
Offers industry-related training:	yes	yes
• AgriSuccess delivered 90 events		

Operational and Financial Highlights

For the year ending March 31, 2006

In 2005-06 FCC experienced another year of exceptional growth with our portfolio growing by $1.2 billion or 10.4 per cent. The number of disbursements continued to increase with net disbursements reaching $3.3 billion. Our equity continues to grow with increases in net interest income offset by an increase in administration expense. The corporation continues to build its strong financial foundation, ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles.

Operational	**2006**	**2005**
Loans Receivable Portfolio		
Number of loans	88,559	85,650
Loans receivable ($ millions)	12,310.2	11,150.0
Net portfolio growth (per cent)	10.4	11.1
Loans receivable in good standing (per cent)	97.5	96.9
New Lending		
Number of loans disbursed	28,634	27,948
Net disbursements ($ millions)	3,317.3	3,067.2
Average size of loans disbursed ($)	115,852	109,747

Financial	**2006**	**2005**
Balance Sheet ($ millions)		
Total assets	12,576.3	11,405.0
Total liabilities	11,312.5	10,320.5
Equity	1,263.8	1,084.5
Income Statement ($ millions)		
Net interest income	388.4	351.9
Provision for credit losses	62.4	95.2
Other income	6.6	5.0
Administration expenses	163.0	143.7
Net income	169.6	118.0

Farm Credit Canada

1-888-332-3301 www.fcc-fac.ca

Cette publication est aussi offerte en français.

Canada

WHY WE EXIST

Vision

Visionary leaders and trusted partners in finance and management services tailored to agriculture – leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.

Mission

To enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Public Policy

We fulfil our public policy role of enhancing rural Canada by offering loans and services to the agricultural community. Our commitment extends to customers throughout rural Canada with services provided in both official languages. Founded on providing lending services to primary producers, FCC's depth of support now extends to financing the inputs to and outputs from primary production.

FCC is built on solid business principles, which includes assuming an appropriate level of risk.

Our commitment to agriculture is unwavering. We are dedicated to supporting the industry by working with our customers to see them through challenges and to help them take advantage of opportunities.

THE FCC VALUE PROPOSITION

What you can expect from us

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

We focus on the primary producer as well as suppliers and processors along the agricultural value chain. We provide our customers with flexible competitively priced financing, equity, insurance, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it.
We love it. We're in it for the long run.

How we behave

Corporate Values

FCC's corporate values represent our core beliefs:

Focus on the customer

We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity

We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Working together

We believe in the power of teamwork. We work together with customers to design services tailored to their needs. We partner with other organizations to benefit our customers.

Give back to the community

We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieving excellence

We are committed to one thing – the success of the Canadian agriculture industry. We set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees achieve their potential.

Cultural Practices

Our cultural practices supplement our corporate values by explicitly outlining the behaviour expected of FCC staff at all times with colleagues, customers, partners, suppliers and stakeholders.

We hold ourselves and each other accountable for:

- our impact on business results and our impact on people;
- delivering on commitments, agreements and promises;
- building and sustaining committed partnerships, and
- creating a safe environment where people can speak up without fear.

We measure our success by how others perceive and respond to our leadership, not by our personal point of view.

We talk straight in a responsible manner. We are committed to the success of others – we do not engage in "conspiracies against" people.

We "listen for" contributions and commitment. We do not listen against people or ideas.

We are highly coachable. We actively seek and listen to coaching.

We clean up and recover quickly.

We acknowledge others often and celebrate both small and large successes.

Operational and Financial Highlights

For the year ending March 31, 2006

In 2005-06, FCC experienced another year of exceptional growth with our portfolio growing by $1.2 billion or 10.4 per cent. The number of disbursements continued to increase with net disbursements reaching $3.3 billion. Our equity continues to grow with increases in net interest income offset by an increase in administration expense. The corporation continues to build its strong financial foundation, ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles.

Operational	**2006**	**2005**	**2004**	**2003**	**2002**
Loans Receivable Portfolio					
Number of loans	**88,559**	85,650	82,551	78,442	75,888
Loans receivable ($ millions)	**12,310.2**	11,150.0	10,039.0	8,803.7	7,708.5
Net portfolio growth (per cent)	**10.4**	11.1	14.0	14.2	11.7
Loans receivable in good standing (per cent)	**97.5**	96.9	96.0	96.4	96.5
New Lending					
Number of loans disbursed	**28,634**	27,948	26,529	25,133	16,753
Net disbursements ($ millions)	**3,317.3**	3,067.2	2,861.7	2,561.4	2,102.0
Average size of loans disbursed ($)	**115,852**	109,747	107,871	101,914	125,470

Financial	**2006**	**2005**	**2004**	**2003**	**2002**
Balance Sheet ($ millions)					
Total assets	**12,576.3**	11,405.0	10,203.9	8,982.3	7,876.6
Total liabilities	**11,312.5**	10,320.5	9,258.7	8,142.7	7,133.4
Equity	**1,263.8**	1,084.5	945.2	839.6	743.2
Income Statement ($ millions)					
Net interest income	**388.4**	351.9	314.4	273.2	204.9
Provision for credit losses	**62.4**	95.2	84.0	67.2	45.5
Other income	**6.6**	5.0	4.1	6.6	7.4
Administration expenses	**163.0**	143.7	128.9	116.3	98.6
Income before income taxes	**169.6**	118.0	105.6	96.3	68.2

Message from the President and CEO

At FCC, we're passionate about agriculture and we're deeply committed to helping our customers succeed.

We pride ourselves on listening to the industry, learning and truly understanding the needs of producers and others, whether they're involved in inputs or value-added. Based on this feedback, we develop services, products and education to share knowledge, and create solutions tailored to each customer's unique needs. Finally, we work to enhance the vitality of our rural communities.

Sophistication

Sophistication is a fact of agriculture today. Those who do well are embracing technology, improving their knowledge base and making complex business decisions. Knowledge is power and we do everything possible to help in this area. Our experienced Account Managers share their considerable expertise with customers to help them make the best choices for their operations. We also offer AgExpert management software tailored to producers and help advance management skills through AgriSuccess training and publications.

Bio-security and product traceability are key issues that require highly sophisticated processes to mitigate risk. Understandably, consumers are demanding safe food. Since Canada has a very good reputation in this area, some producers are leveraging this as a competitive advantage. FCC is establishing new bio-security protocols and standards to ensure that our employees demonstrate the importance of disease prevention at all times with customers. In addition we are committed to raising bio-security awareness among customers and the industry-at-large.

Internally, we are improving our own sophistication by developing new integrated systems and processes to simplify how we do business. This will result in faster and more efficient service for customers. Better cohesiveness and consistently extraordinary service help us focus on something you hear a lot around FCC: "one team – one customer."

Contraction

By conservative estimates, there will be 25,000 fewer producers in Canada in the next five years. Economics are at the heart of this. Costs of production – such as fuel, fertilizer and equipment – are going up, while global trade issues and competition place downward pressure on the value of the raw commodities.

Adding value has therefore never been more important. There's plenty of room for innovative minds and entrepreneurs on both the input side and value-added and processing side of agriculture.

With fewer producers, the issue of inter-generational transfer and equipping young farmers to succeed is of crucial importance. Last year, our Board of Directors and senior management met with a group of young Canadian producers. We heard first hand the challenges they face – securing financing, family succession management, trade barriers and access to skilled employees. We're supporting young producers through flexible lending such as the Transition Loan, First Step Loan and Payday Loan, our Business Planning Awards for post-secondary students and our long-standing partnership with the Canadian Young Farmers Forum. We believe we can do more and we're pursuing new ideas to encourage and help young farmers succeed in 2006 and beyond.

Profit

A third important success factor today is profit.

For many in agriculture, profit margins are small. The marketplace is competitive and input costs are rising. Customers must continually hone their skills at improving efficiencies and planning, discovering new niche markets and making the best use of existing capital.

As a major player in the farm debt market, FCC strives to be financially viable to ensure that we can continue to serve agriculture in the years ahead, and to support customers who face unforeseen challenges through no fault of their own. Our loan portfolio grew to $12.3 billion in 2005-06. This achievement reflects the relationships we've created with our customers who find value in a relationship with FCC. We use our financial success to fund the development of innovative products, services, and knowledge to benefit the industry. In addition, we donate a minimum of one per cent of profit to the communities where our customers and employees live and work.

FCC believes strongly in corporate citizenship. We are building a corporate social responsibility framework to expand our current accessibility, accountability and transparency practices. Our commitment to reporting on our social, ethical and environmental impacts is steadfast and driven by people who live our corporate values.

Helping customers succeed in a complex environment

I'm often told that we're different as a company. People say that we "get agriculture," and "wow, I didn't know FCC did all that!" is another frequent comment. That's the best feedback we can get. We strive to help our customers succeed in an increasingly complex market.

Our ability to help customers is clearly based on the type of employees we have at FCC. All 1,200 FCC employees possess a leadership mindset, characterized by courage, vision, a positive attitude, and the passion to make a difference. Our employees make on-the-spot decisions to enhance each customer's experience and demonstrate that we are easy to do business with.

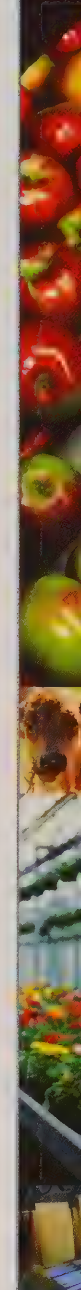
I'm pleased to report that for the third consecutive year, we were named one of Canada's 50 Best Employers by the Globe and Mail's Report on Business. We rose to 12th on the list, up from 35th last year, as measured by our annual Hewitt Associates employee opinion survey where employees can respond, in confidence, to any successes or concerns they may have with FCC.

Through their work and enthusiasm, we are transforming FCC from very good to great. Our drive towards an internal cultural transformation – improving communication and committed partnerships between employees, customers and suppliers – is strong.

There are many twists and turns along the road to success. But there are also breathtaking moments, when the road opens up and you clearly see where you're headed. We're committed to keeping our customers firmly in the driver's seat.

John J. Ryan

John J. Ryan



Senior Management Team

President and CEO John Ryan's quest to build a world-class organization dedicated to agriculture has attracted a senior team of professionals with diverse talents and experience. Senior Management Team (SMT) members are sought after as best practice leaders in their professions and actively volunteer in their communities.

At FCC, everyone is a leader, whether you manage people or not. That's why any employee at any level can directly contact SMT on any issue. Each member of SMT believes a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers.

It is no surprise, therefore, that FCC enjoys very high employee satisfaction, customer loyalty and business results. This year, FCC placed 12th on the annual Hewitt Associates/Globe and Mail survey of Canada's 50 Best Employees, an accomplishment that makes SMT very proud.

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor-in-Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2005-06, the salary range for the President and CEO was set at $254,200 to $299,000. The salary range for Executive Vice-Presidents was $179,860 to $275,080. The salary range for Senior Vice-Presidents was $126,480 to $193,440. The salary range for Vice-Presidents was set at $112,115 to $164,875. Total cash compensation paid to SMT was $4,420,218.

1st Row (L to R)
Clem Samson – *VP Operations, Prairie*
André Tétreault – *VP Credit Risk*
Corinna Mitchell-Beaudin – *VP Portfolio Management*
Alain Gagnon – *VP Operations, Quebec*
Dan Bergen – *VP Operations, Western Ontario*
Don Stevens – *VP and Treasurer*
Greg Honey* – *Senior VP Human Resources*

2nd Row (L to R)
Greg Stewart* – *Executive VP Operations*
Jim Taylor – *VP Venture Capital*
Moyez Somani* – *Executive VP and Chief Financial Officer*
John J. Ryan* – *President and Chief Executive Officer*
Larry Martina – *VP Operations, West*
Sophie MacDonald – *VP Enterprise Integration and Innovation*
Lyndon Carlson – *VP Marketing and Product Development*

3rd Row (L to R)
Kellie Garrett* – *Senior VP Strategy, Knowledge and Reputation*
Paul Daro – *VP and Chief Technologist*
Paul MacDonald* – *Senior VP and Chief Information Officer*
Rémi Lemoine – *VP Operations, Atlantic and Eastern Ontario*
Rick Hoffman – *VP and Controller*
Michael Hoffort – *VP Partners and Channels*
Ross Topp – *VP Audit and Integrated Risk*

* Executive Committee member

Message from the Chair

We're proud of FCC's commitment to enabling Canadian producers to succeed through innovative programs such as specialty training and other means that go beyond loans and financing. FCC demonstrates its role as a good corporate citizen with various activities to leverage and enhance charity efforts across Canada.

The role of the Board of Directors is to oversee FCC management and business operations. We ensure the organization fulfils its mandate in the best interests of the company and, as a Crown corporation, in the best interests of all Canadians.

FCC is led by a strong and experienced Board. It includes representatives with a broad and vast background in agriculture, business and financial ventures. They bring diversity in expertise and perspective to the day-to-day activities and decision-making that shapes our entire year.

The Board's commitment to the highest standards of ethical conduct ensures FCC's strategic direction and execution remain on course and management is held accountable for performance against specific targets.

Media headlines continue to underscore the importance of transparency, accountability and accessibility of government. To further enhance our knowledge in this area, several Board members attended external conferences on corporate governance.

We have been intrigued by the remarkable progression of FCC's employee engagement scores and repeated stories from employees regarding how pleased they are with the internal climate of trust and respect. As a result, the Board participated in an intensive session on building a high-performance culture as we are deeply committed to this goal.

The Board is renewed on an ongoing basis, as colleagues complete their terms of service and new members are appointed. We were pleased to have R. Claude Menard join us on March 11, 2005, followed by Réal Tétrault on June 23, 2005. I would like to express our gratitude to outgoing Board members Maurice Kraut, a director since 1999, and Germain Simard, a director since 1995.

We were thrilled in November 2005 when John Ryan was reappointed as the President and CEO of FCC. John's vision and efforts to transform FCC into a world-class company has created dramatic results for our customers, employees and for business. We look forward to his continued leadership and the positive impact he is sure to bring to the table in the coming years.

Congratulations to FCC's Senior Management Team (SMT) for earning the Saskatchewan Institute of Public Administration of Canada (IPAC) Lieutenant-Governor's Medal. SMT's recognition for distinguished leadership and achievement in public administration marks only the third occasion this prestigious award has been presented to a work team.

Finally, we extend our thanks to all 1,200 FCC employees who continue to bring their skill, passion and commitment to work every day. The journey to world class can only happen with you.

Respectfully submitted on behalf of the Board of Directors

Rosemary Davis

Rosemary Davis

Message From The Minister Of Agriculture And Agri-Food And Minister For The Canadian Wheat Board

It gives me great pleasure to extend my greetings to everyone at Farm Credit Canada and to the many people who benefit from your products and services.

The days are long gone when working in agriculture was straightforward. The advent of new technologies, innovative practices, scientific advancements and highly competitive markets has radically changed how we farm in Canada today. What has remained the same is the important role agriculture continues to play in the Canadian economy and in our society.

Farm Credit Canada does a tremendous job of helping to keep producers producing, so that they can be profitable and their communities can flourish. Canadians have every reason to be proud of our agriculture and agri-food sector, and thanks must go to Farm Credit Canada for using your knowledge, expertise and competence to assist the sector to remain strong. That's how you get to be among the top fifty employers in Canada three years running.

As Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board, I share your goal of a strong and successful industry. I congratulate you for the excellent work you do, and wish you all the best as you continue to help Canadian producers "grow, diversify and prosper."

The Honourable Chuck Strahl
Minister of Agriculture and Agri-Food
And Minister For The Canadian
Wheat Board

Chuck Strahl

Operating Environment

FCC proactively monitors and analyzes the external operating environment to identify and assess strategic issues that need to be addressed. An operating environment panel comprised of subject matter experts throughout the organization provides quarterly operating scans to monitor changes and their potential impacts on FCC.

Financial services industry

FCC operates within the financial services industry. The agricultural market is served by the chartered banks, credit unions, provincial lending agencies, equipment manufacturer financing programs and independent financing institutions. New lenders are also entering the marketplace. For the past 13 years, we have successfully expanded our lending portfolio. Today, FCC's overall market share is 20.4 per cent.

Farm income

According to Statistics Canada, farm cash receipts edged up in 2005. Crop revenues dropped significantly, in some cases to near record lows. At the same time, the livestock industry recorded big gains after recovering from the BSE situation. Farmers received $32 billion in gross revenue from markets, up 1.1 per cent from 2004. Program payments contributed $4.9 billion to these final receipt numbers.

Statistics Canada indicates that as of December 31, 2004, farm debt outstanding rose 4.9 per cent to $48.9 billion. Both mortgaged and non-mortgaged debt rose, by 8.7 per cent and 1.6 per cent, respectively. Since 1993, non-mortgaged debt has been larger than mortgaged debt. In 2004, non-mortgaged debt rose to $25.4 billion, while mortgaged debt rose to $23.6 billion.

Most non-mortgaged debt was owed to chartered banks (57.6 per cent) and credit unions (23.7 per cent). Major holders of mortgaged farm debt were FCC (36.5 per cent), chartered banks (27.8 per cent), private individuals (15.2 per cent), credit unions (8.9 per cent) and provincial government agencies (5.7 per cent).

Economics

The Bank of Canada began to raise its overnight rate in September 2005 in response to inflationary pressures. The rate is expected to increase modestly in the first half of 2006.

International trade environment

The international trade environment is an evolving issue in Canadian agriculture. A number of concurrent issues have placed pressure on agricultural products:

- International Trade Commission (ITC) – On December 6, 2005, the U.S. Department of Commerce reduced the duties on Canadian softwood lumber. The countervailing rate dropped from 16.37 per cent to 8.7 per cent. The antidumping rate dropped from 3.78 per cent to 2.11 per cent.
- North American Free Trade Agreement (NAFTA) – On December 12, 2005, the NAFTA dispute panel dismissed a challenge by the North Dakota Wheat Commission. At issue was NAFTA's previous ruling that the tariffs placed on Canadian hard red spring wheat entering the United States were unjustified.
- Doha Round of World Trade Organization (WTO) Negotiations – Lack of alignment between the European Union, United States and other nations slowed negotiations for most of 2005. However, many bilateral discussions have taken place since the December 2005 Hong Kong meetings, when a protocol calling for the elimination of export subsidization by 2013 was agreed upon. Negotiations continue to focus on a tariff reduction formula, tariff cuts, options for setting caps and thresholds, the treatment and selection of sensitive products, and special treatment for developing countries.

FCC is monitoring these international negotiations closely.

Avian influenza

Globally, avian influenza is a serious concern, with outbreaks occurring in numerous countries. Avian influenza is contagious to other birds and can wipe out entire flocks, with the potential to cost the industry millions of dollars.

In November 2005, the presence of low pathogenic North American subtypes of avian influenza was detected in a small number of wild birds in Quebec, Manitoba and British Columbia. Avian influenza virus is commonly found in wild birds around the world. There is no information in these findings suggesting a new threat to human health. However, the ongoing presence of the virus reinforces the importance of maintaining strict bio-security controls in all domestic bird operations.

FCC closely follows avian influenza developments and monitors potential impacts on the industry and our customers.

Beef

After a two-year Canada-U.S. border closure due to a case of Bovine Spongiform Encephalopathy (BSE), Canadian cattle under the age of 30 months are once again being exported to the United States for slaughter and cattle prices are recovering. The Canada-U.S. border re-opening has resulted in a renewed sense of optimism as cattle trade moves closer to business as usual and producers work through challenges.

The U.S. Department of Agriculture is currently working toward regulations allowing cattle and beef products from cattle over the age of 30 months to be shipped across the border.

While a fourth case of BSE in Canada was confirmed in late January 2006, the Japanese and U.S. borders remain open to Canadian exports. FCC monitors new cases of BSE as they occur. As well, FCC is administering the Ruminant Slaughter Equity Program for Agriculture and Agri-Food Canada (AAFC).

Hogs

Cash receipts for hog producers declined 7.9 per cent, mainly due to lower slaughter prices. Pork prices recovered significantly in 2004 and decreased in 2005 as part of the hog price cycle.

On March 5, 2004, the National Pork Producers Council (NPPC) petitioned the U.S. Department of Commerce for antidumping and countervailing duty investigations on imports of Canadian live hogs. The ITC heard the preliminary application in May 2005. Canada won a split decision on this issue: winning the countervailing duty challenge, but losing with regard to the antidumping investigation. In the release of its final determination, the ITC judged that Canada did dump live swine into the U.S. market. However, a second ruling stated such dumping did not materially injure producers within the United States. Based on this rationale, the tariffs placed on Canadian hogs were rescinded.

Grain crops

Based on the 2005-2006 Farm Income Forecast from AAFC, the outlook is weak. Revenues from wheat, excluding durum, fell 22.4 per cent in 2005, while barley receipts fell 25.7 per cent. Near record grain and oilseed production in Canada and the United States in 2005 added to the already large grain stocks of the 2004 harvest. In fact, abundant world grain supplies combined with a strong Canadian dollar contributed to lower crop prices and receipts in 2005. In some cases, these prices fell to near record lows.

Oil prices

There is the additional prospect of decreasing margins due to higher energy prices, which will directly impact fuel costs. Because nitrogen fertilizer is derived from natural gas, rising fertilizer costs may affect producer cropping decisions for 2006. Fallout from Hurricane Katrina and Hurricane Rita is impacting the input sector (fuel and fertilizer), transportation sector and heating costs. Fundamentally, rising energy prices have a widespread and systematic negative impact on Canadian agriculture.

Agricultural technology

Top-notch equipment and technology is fundamental to ensuring the quality, efficiency and safety of agriculture and the food produced and processed. As more information and technological choices become available, the challenge for producers is to manage all facets of the business – from financing to production and marketing.

Technology is no longer an option. Producers are adopting new technologies to meet the challenges of an increasingly commercialized and globalized agriculture industry. As well, the increasing cost of larger, more powerful machinery and equipment represents a large percentage of farm operating and capital costs. Together, machinery and technology are the number two capital investments for producers, second only to land purchase.

Balanced Scorecard 2005-06

Objectives, measures and targets

Every year, FCC measures progress towards achieving corporate objectives using a balanced scorecard, which translates vision into corporate objectives, measures, targets and initiatives. The balanced scorecard consists of four perspectives: financial/shareholder, customer, internal capability and people.

We plan to achieve our vision through the execution of strategic objectives that can be summarized in four corporate strategies or strategic themes: strengthen market presence, enhance the customer experience, optimize execution and performance and sustain commitment to agriculture. As employees make strategy happen, strong emphasis is also being placed on cultural transformation and the way we do business at FCC.

Strengthen market presence

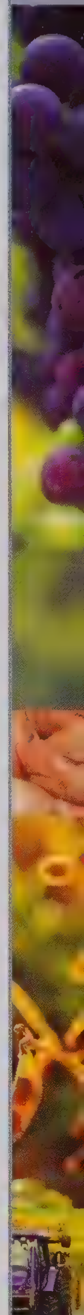
We will strengthen our presence in the agricultural financing marketplace, promoting the value FCC delivers with all customers, partners and stakeholders and across all channels. This means continuing to build visibility to raise awareness of FCC's full offerings: relationships, expertise and products and services tailored to agriculture.

2005-10 Strategic objectives	Measures	2005-06 Plan targets	2005-06 Results
Financial Income growth	Portfolio growth	5.66% [1]	10.41%
	Non-interest revenue	$11.9 million	$4.6 million
	Net interest income (NII) margin	3.11%	3.21%
Customer Understands business, financial and relationship needs Attract customer and business relationships	New customer acquisitions – all channels	Q1 Farm Finance targets Q3 AgExpert targets and begin reporting against AgriSuccess targets [2]	Measure was researched and developed for AgProduction customers and 2006-07 target was set at "greater than zero." New customer acquisition score is 1.1, which means that we gain 110 customers for every 100 customers who exit. [3]
	Venture capital • Interest and fee income	• $2.6 million	• Interest and fee income was $4.1 million.
	• Co-investment ratio	• 1.3:1	• In 2005-06, $15.0 million in co-investment funds were attracted for a co-investment ratio of 1.2:1. As of March 31, 2006 the ratio of co-investment dollars per FCC Ventures' dollars invested was 1.9:1.
	• Capital invested	• $18.0 million	• Capital invested was $12.1 million, although there has been $16.4 million committed capital this fiscal year.
	Market share at 20.70%	Set targets by business line	Targets were set for 2006-07 planning period and beyond. AgProduction market share is 20.4% as of December 31, 2004 (Farm Debt Statistics). AgExpert market share is 22% (as of fall 2005).
Internal capability Relationship selling, management of all FCC solution Portfolio/risk management Consistent brand – marketing of FCC's full capabilities Strategic integrated planning	Time spent with customers and prospects for value-added activities	Develop work plan and set targets for following fiscal years	Baseline survey to confirm % of time spent with customers conducted in January 2005. New tracking system will monitor pipeline activity and proactive calls and will report amount of time spent with customers. System implementation is scheduled for 1st quarter, after which benchmark will help set targets.

[1] Target was revised to reflect the portfolio growth of loans receivable and its equivalent is 5.44% in Principal Not Due (PND).

[2] Quarterly targets were slightly adjusted at the beginning of fiscal 2005-06.

[3] New customers acquisitions are measured by calculating the number of recaptured customers plus the number of new customers, divided by the number of customers lost.



Enhance customer experience

FCC will enhance the customer experience and customer perceptions of FCC. When customers choose FCC, we want them to feel they are choosing Canada's leader in the industry. Our focus is on enabling FCC's ability to build and expand strong relationships with customers as a contributor to their success.

2005-10 Strategic objectives	Measures	2005-06 Plan targets	2005-06 Results
Financial Return on equity and investment	Return on equity	11.49%	14.44%
Customer Anticipates and offers tailored, preferred solutions across channels Build and expand relationships across channels	Customer experience index	Q3 Establish baseline Q4 Set targets	Customer experience measure was designed and implemented. Results focus on perfect "five out of five" scores for customer delight. Analysis delivered the baseline customer experience index score of 53.47%. The index is calculated using data gathered from customer post-loan, customer exit and annual report card surveys. The score is derived from questions pertaining to customer satisfaction, customer loyalty, advocacy, ease of doing business with FCC, care, overall value and problem resolution.
	Total value penetration [4]	Q1 Set targets	Q1 baseline was 1.74. Target set to increase national score. Total value penetration score increased to 1.766 out of a possible 5. [5]
	Channel usage • # of unique website visitors per year • # of website pages visited per year • # of online registered borrowers • # of Customer Service Centre (CSC) customer contacts • $ disbursed of CSC direct full service lending	• Establish baseline and set target • 1.4 million • 10,000 • 80,000 • $155 million	• Target was set at 15,800 Result: 17,883 • 2.1 million • 10,137 • 85,986 • $164.8 million
Internal capability Seamless, cross-channel integration to deliver sales, service Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management	Customer value management	Establish approach	A model was established to measure the net returns on loans through various customer delivery channels. Benchmark data will be gathered and monitored in 2006-07 so that targets can be set in future years.
	Customer channel awareness, preferences and permissions	Establish approach	Measurement approach was researched and channel awareness statistics were tracked. Data will be analyzed in the next quarter to establish baselines and targets.

[4] Measure title changed from "Total value proposition" to "Total value penetration" at the beginning of fiscal 2005-06.

[5] Total value penetration measures the number of FCC services a customer uses: top score possible is 5.

Optimize execution and performance

FCC's organizational capabilities will strengthen the ability to deliver an extraordinary customer experience. The integration of FCC's processes, technology and resources will be optimized to deliver efficient, cost-effective and quality solutions to the benefit of customers and the agriculture industry.

2005-10 Strategic objectives	Measures	2005-06 Plan targets	2005-06 Results
Financial Balance sheet optimization **Customer** Continuously delivers consistent, efficient, quality service Retain customers and grow loyalty efficiently	Efficiency ratio	Between 40% and 45%	41.3%
	Debt to equity	Under 10:1	9.0:1
	% of PND with arrears	6.0%	2.5%
	Strategic credit risk management (SCRM)	Managed range between 55 and 70	58.3
Internal capability Process innovation and continuous improvement Integrated value chain process redesign Agile, integrated IT solutions delivery Simplified, flexible business/IT architecture and standards IT platform reliability and performance Effective project execution, management and control Strategy execution, enterprise risk management Enterprise services delivery, management	Process improvements and quick wins benefits realized	Enterprise value chain (EVC) baseline and business case; create business cases to measure "quick wins" process redesign and loan renewals; track benefits of business case	Enterprise Value Chain (EVC) business case completed and approved. Near-term improvements were identified and tracked. 58 near-term improvements were implemented and 6 medium-term improvements are in progress. Business cases created for each redesign project. Business owners will conduct benefits monitoring, reporting and continuous improvement activities following project implementation.
	IT architecture capability	67% of key architectural framework elements incorporated	67% of key architectural framework elements implemented.
	User acceptance (performance, reliability, usability)	Establish baseline and preliminary targets mid-year	User acceptance survey was established and administered. Baseline of 50% was established and targets were drafted.
	Project management maturity [6]	Establish approach and set baseline	Established measurement approach and conducted informal project management maturity survey and assessment. Formal baseline assessment to be conducted in 2006-07.

[6] Measure title changed from "Project execution capability" to "Project management maturity" at the beginning of fiscal 2005-06.

Sustain commitment to agriculture

FCC is committed to helping the agriculture industry succeed and enhancing rural communities across Canada. Strengthening and leveraging FCC's knowledge base and building awareness of agriculture will demonstrate support for the industry and customers.

2005-10 Strategic objectives	Measures	2005-06 Plan targets	2005-06 Results
Financial Investment in agriculture **Customer** Trusted partners and industry catalyst Build industry, stakeholder awareness, credibility and support **Internal capability** Leverage knowledge management Industry investments and stakeholder relations	Corporate social responsibility (CSR) scorecard	Q3 Establish baseline[7] Q4 Set targets for 2006-07	Researched CSR best practices. Draft CSR strategy and measures presented to the Board of Directors in March 2006.
	Media favourability index	Score of 63	Score of 64

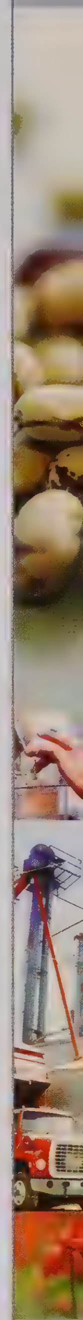
People: the foundation of FCC's strategy

FCC's commitment to agriculture is founded on the commitment of dedicated employees. This is one of the reasons we invest in our employees. Building and sustaining strong customer relationships requires a workforce that is knowledgeable, motivated and innovative.

FCC believes in fostering leadership at all levels within a culture of respect and accountability. Areas of focus include leadership governance, creating a culture that is customer-focused, knowledge and employee-oriented, aligning performance management and creating strategic competencies and capabilities.

2005-10 Strategic objectives	Measures	2005-06 Plan targets	2005-06 Results
Strategic enterprise leadership Customer and knowledge culture Employee-oriented culture Aligned performance management Strategic competencies and capabilities	Engagement score	Minimum threshold 80%	FCC's annual employee engagement survey was completed in June 2005. Employee engagement score increased from 81% to 84%. FCC named 12th on Hewitt/ Report on Business Top 50 Employers Survey in 2006.
	Engagement driver management	Q1 Establish targets once drivers are confirmed	This measure was eliminated as it has been incorporated into business as usual activity.
	Employee experience	Q1 Set targets Q2 Begin monitoring and reporting on targets	Draft employee value proposition and action plan completed. Targets will be established in 2006-07.
	Strategic competency development	Q3 Set targets Q4 Begin monitoring and reporting against targets	This measure was eliminated as it was deemed premature due to performance management system redesign.

[7] Quarterly targets were adjusted slightly at the beginning of fiscal 2005-06.



The FCC Experience

We've been lending money to producers since 1959. Today, we do much more than just lend money. We offer a diverse range of products and services as captured in our value proposition.

"We take the time to sit down with customers and get a feel for what they need and where they want to go. We don't present a bunch of products and say 'pick one'. We design a tailored combination of solutions for their individual needs. We want to give each person value and show we care about their operations. What affects their bottom line affects their families. Our job is to help our customers succeed on all levels."

Lyndon Carlson
FCC Vice-President, Marketing and Product Development

Financing

We take the time to understand our customers and the demands of their individual situations.

Our offering of 24 different loan types provides the flexibility to mix and match them to help meet the unique needs of our customers. In fact, more than 50 per cent of new lending this year is from customized loans.

We provide financing tailored to agriculture's unique needs.

The majority of our $12.3 billion portfolio is comprised of primary producers – the farmers, ranchers and growers who produce raw commodities such as crops, livestock, fruits and vegetables, to name a few.

FCC also serves those who provide inputs to the industry, including equipment and fertilizer. In addition, we increasingly help value-added operations and processors who turn raw commodities into some of the highest quality food in the world.

FCC partners with 525 equipment dealers and 70 alliance partners to serve agriculture across Canada. Our alliance partners provide products that producers want such as equipment, buildings, livestock and crop inputs, and we provide the financing to bring the two together.

FCC Loans

We can tailor any combination of our 24 loans to meet our customers' growing needs.

Customized Loans

Advancer
Use this pre-approved, secured loan with the flexibility to re-advance funds at your discretion.

American Currency
If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.

Capacity Builder
Purchase quota or breeding livestock with pre-approved financing for up to one year and the option to capitalize interest.

Cash Flow Optimizer
Invest funds that would normally go towards principal into other areas of your operation.

Construction
Get interim financing for up to 18 months on construction projects, including processing plants, cold storage and grain storage facilities. Use the money to build, and pay when your project is done.

Enviro
Defer principal payments while constructing, improving or expanding your operation when you improve environmental facilities.

Farmbuilder
Defer your principal payments while you build, with interim financing for up to 18 months on construction projects.

First Step
Use your post-secondary education to buy your first farm-related asset.

Flexi-Farm
Defer payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.

Herd Start
Take time after starting or expanding your livestock operation. Use your cash flow to grow your business.

Opportunity
Fund your agribusiness expansion with principal payment holidays for up to 12 months.

Payday
Use your off-farm income to start or expand your farm business.

Performer
Achieve pre-set financial goals and ratios and enjoy lower interest rates.

Plant Now – Pay Later
Defer payments in your horticulture operation until your new plantings start to generate cash flow.

Spring Break
Match your payment schedule to the forestry harvesting season.

Stop and Grow
Defer principal payments at your woodlot as saplings grow into profits.

Transition
Help the next generation purchase your property at retirement. Get the equity from your farm without risk.

1-2-3 Grow
Manage your cash flow with interest-only payments until you get a return on your investment.

Real Property

Perfect for those looking to purchase land or financing the construction of a new building.

Variable
Rate floats as interest rates rise or fall, plus option to prepay up to 10 per cent, anytime.

Closed
A low fixed rate for the term of the loan.

Fixed
Fixed rate with option to prepay up to 10 per cent anytime.

Personal Property

Buying equipment or livestock? Choose from these options:

Variable
Rate floats as interest rates rise or fall, plus lock in your rate, or prepay any amount, anytime.

Closed
A low fixed rate for the term of the loan.

Open
Low fixed rate with option to prepay any amount, anytime.

"One of the things I like most about FCC is their people. They are helpful and understand the cyclical nature of the agriculture industry and how it affects our business. We have special needs that are unique to agriculture. For us, FCC's knowledge and history of working with agriculture makes a real difference."

Earl Kidston, CEO Planters Equipment Ltd., Kentville, Nova Scotia

Earl Kidston owns several agriculture-related operations in the Atlantic region and is a long-time FCC customer.

"When our dealers match productive Lexion combines with competitive FCC financing, the result is customer success and satisfaction."

Kathrina Claas and Russ Green of Claas

Claas is a world leader in agriculture equipment and an FCC alliance partner.

"IT WAS EASY AND CONVENIENT TO GET INSURANCE WITH FCC. THEY ALREADY KNEW US."

Wim and Annemieke Wantenaar, Fergus, Ontario

Wim and Annemieke bought key person insurance for their son. He's an important part of their dairy operation.

Insurance

A vital component to any business is insurance. It's also important to our customers.

To fill this demand, we offer Agri-Assurances – five platforms of loan life and accident insurance tailored to our customers' needs and loans.

This year, we provided $592 million in insurance, providing protection and peace of mind for our customers, their families and their operations.

"WORKING WITH FCC WAS SIMPLE AND QUICK. THEY UNDERSTAND THE BUSINESS OF AGRICULTURE."

Robby Gill (far left) and his family own and operate Cloverdale Fuels, a wood recycler based in Surrey, British Columbia. They are also listed on CanadianFarmersMarket.com.

"OUR IPO WAS A CRITICAL ELEMENT TO OUR SUCCESS, AND FCC WAS VITAL IN MAKING THAT HAPPEN."

Andrew Baum, President and CEO, SemBioSys Genetics Inc., Calgary, Alberta

SemBioSys Genetics Inc. is a pharmaceutical company that uses plant genetic engineering and proprietary oil-body technology to develop products that treat cardiovascular and metabolic diseases.

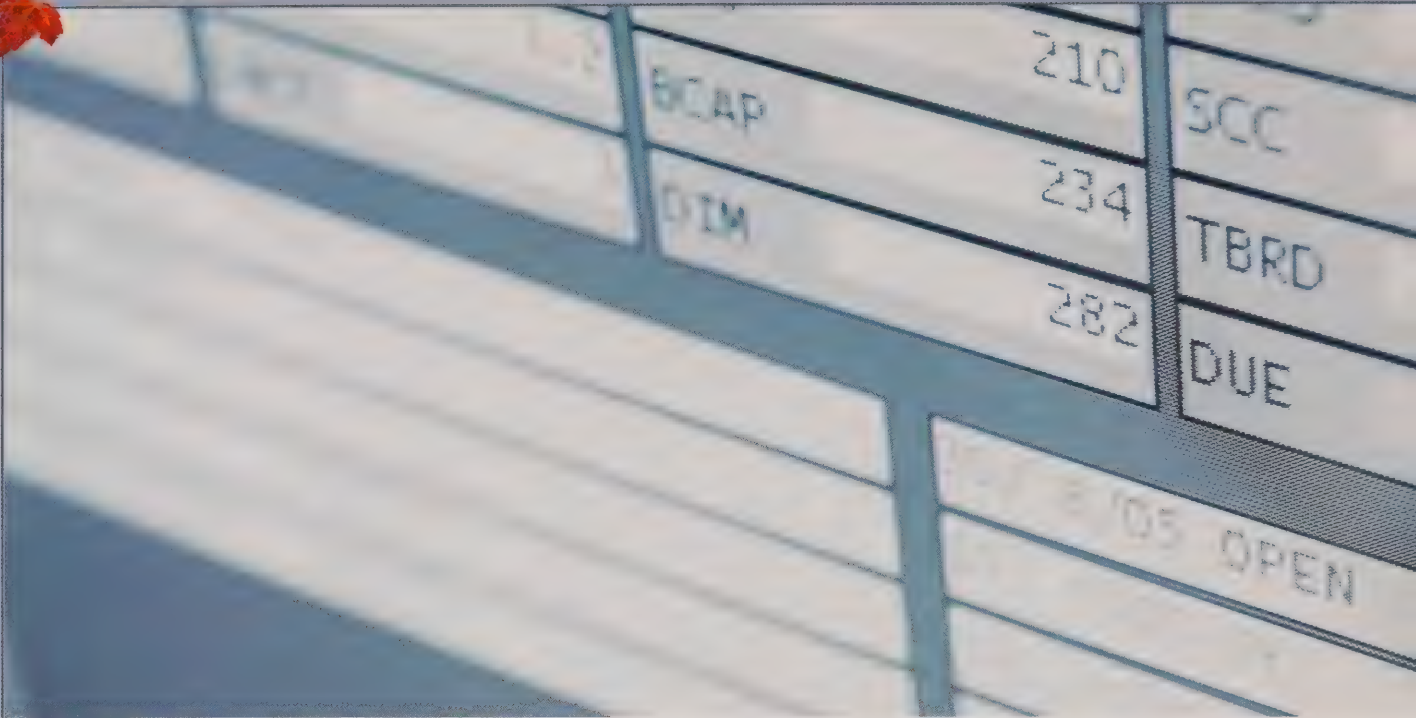
Equity

In 2002, we introduced FCC Ventures, a new division to address the growing need for non-traditional capital financing in Canada's agriculture industry.

FCC Ventures provides equity financing to commercial-scale primary producers, food processors, equipment manufacturers and ag-biotechnology companies along with other agriculture-related businesses.

This year alone, FCC Ventures provided $12 million in venture funding, totalling $43 million since its inception four years ago, and expanded the number of office locations.

An added benefit of our equity funding strategy is the fact it attracts other venture capital providers to agriculture and agri-food. This has resulted in leveraging an additional $81 million from other partners to serve agriculture.



"AGEXPERT IS STRICTLY GEARED TOWARDS FARMING. ONCE YOU INPUT YOUR INFORMATION, YOUR NUMBERS, YOUR RATIOS, GST REPORTS, EVERYTHING IS RIGHT THERE AT A CLICK OF A BUTTON. AND I LOVE THEIR HELP LINE – IT'S SO CONVENIENT."

Jackie and Roger Feasby, Uxbridge, Ontario

Roger bought his first piece of land next to his father's farm with an FCC loan nearly 30 years ago. Today, Roger, Jackie and their four kids manage 130 milking Holsteins.

Management software

Technology moves at the speed of light, and we're committed to help our customers keep up.

"BY BELIEVING IN YOUR PRODUCT, YOU CAN TRULY BE A COMMITTED PARTNER IN A CUSTOMER'S SUCCESS. WHEN I HEAR CUSTOMERS TALKING POSITIVELY ABOUT AGEXPERT AND HOW IT SAVES THEM TIME AND EFFORT, I BELIEVE IN AGEXPERT. ACCOUNTANTS SPEAK HIGHLY OF IT TOO. BY TAKING THE TIME TO KNOW MY CUSTOMER'S NEEDS AND EXPECTATIONS, I MEET THEIR NEEDS AND EXCEED THEM. IT'S A WIN-WIN SITUATION."

Ron Mason, FCC Account Manager, Lindsay, Ontario

In 2002, FCC acquired Settler Ag Software and introduced AgExpert, Canada's leading management software for agricultural producers. Agriculture software is gaining momentum as more and more producers discover the importance of secure, accurate record and data protection.

We offer two software products: AgExpert Analyst and AgExpert Field Manager.

With AgExpert Analyst accounting software, customers track income and expenses, inventory and capital assets, complete GST and CAIS reporting and prepare financial statements on their personal computer.

AgExpert Field Manager crop and field management software allows customers to track seeding and planting schedules, disease, weather, weeds, rotations and other inputs, including herbicide, pesticide and fertilizer. Customers can compare this information from year to year, all on their home computer or Palm™ handheld.

"I SEE OUR OPERATION LIKE I NEVER HAVE BEFORE."

Rachel Lauzière, Knowlton, Quebec

Thanks to Advanced Farm Manager, Rachel is a better leader for her employees and a better manager of her family's business.

Information and learning

As technology changes, so does the complex nature of managing today's larger operations. Additional skills are required. In 2001, FCC introduced another way to help our customers meet this challenge: we call it AgriSuccess.

AgriSuccess delivers programs such as educational workshops and seminars on everything from managing farm finances, commodity price risk and human resources to succession planning, estate planning and vision and goal setting. There is also a multi-day comprehensive learning program called Advanced Farm Manager for producers to improve their management practices.

We offer two free publications for customers to subscribe to: a weekly online newsletter called AgriSuccess Express and a bi-monthly farm management magazine called AgriSuccess Journal – both subscriptions are available from our website.

We provide cash incentives to help the future generations of agriculture in the form of FCC Business Planning Awards. Here, agriculture students compete to develop effective business plans with producers or businesses while they have access to help from professional educators.

We want to make it easy for our customers to do business with us. That's why we also provide comprehensive information, online, for our customers. They can safely review their loan portfolio, read farmland values reports, use the Farm Finance Kit, check the weather, watch for daily agriculture-related news and more.

Corporate Social Responsibility

FCC has always cared about social responsibility. It is rooted in our mission, vision, corporate values and cultural practices.

According to Hewitt Associates, one of the key drivers of employee engagement is corporate citizenship. Employees want to work for companies that commit to social and community concerns. In the 2005 employee engagement survey, 95 per cent of FCC employees believe that FCC is a good corporate citizen.

In fiscal year 2004-05, a new section on corporate social responsibility highlights was incorporated in the annual report. In 2005-06, FCC began adding more structure and definition to corporate social responsibility by researching practices at other organizations, the current situation at FCC and recommendations for future strategy. The results of this work were presented to the Governance Committee of FCC's Board of Directors in March 2006 and this topic will be discussed regularly at that forum going forward.

In 2006-07, FCC plans to adopt a corporate social responsibility (CSR) framework[1] comprised of six categories:

1. corporate governance and management systems;
2. human resources management;
3. community investment and involvement;
4. environment, health and safety;
5. human rights; and
6. customers.

Accessibility, accountability and transparency in these areas are key components to this framework.

[1] Based on the Conference Board of Canada.

Corporate Social Responsibility Highlights

For the year ending March 31, 2006

According to the Conference Board of Canada, corporate social responsibility (CSR) is about "transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society."

The following summary was adapted from the Globe and Mail's Report on Business second annual CSR Ranking to measure FCC's progress in six key decision-making, behaviour and performance priority areas.

Corporate Governance and Management	2004-05	2005-06
Statement of social responsibility	not yet	not yet
Statement of corporate values	yes	yes
Code of business conduct	not yet	yes
Board Chair and company CEO are separate functions	yes	yes

Human Resources Management		
Conducts employee engagement surveys: • Included in Globe and Mail's Best Employers list for last three years • Increased engagement score from 81 per cent (2005) to 84 per cent (2006)	yes	yes
Provides employees with education and development	yes	yes
Conducts annual market compensation reviews	yes	yes
Policy on diversity and employment equity	yes	yes
Public reports on diversity issues	yes	yes
Offers employees diversity training	yes	yes
Benefits include additional maternity and paternity benefits	yes	yes
Percentage of women on the Board	42	42
Percentage of women on senior management team	14	14

Community Investment		
Policy statement on community donations is available to the public	yes	yes
Calculates donations based on one per cent of profits	yes	yes – 1.19%
Programs are in place to support employee giving and volunteering	yes	yes

Environment, Health and Safety		
Corporate environmental management systems in place, including policies, programs and performance analysis	not yet	not yet
Reports on resource use (energy, materials, water)	not yet	not yet
External reporting on lending environmental risk management	in progress	in progress
Lending environmental risk management policy and processes, including environmental risk assessment (and bio-security)	yes	yes
Offers loans that reduce the environmental impact	yes	yes
Environmental reporting, including policy, programs and initiatives, performance and compliance data	in progress	in progress

Human Rights		
Human Rights policy and code of conduct	yes	yes
Policy/code of conduct governing the supply chain of procured items	not yet	not yet

Customers		
Conduct customer satisfaction surveys	yes	yes
Helps customers market their products: • 310 customers with 361 listings on CanadianFarmersMarket.com	yes	yes
Loans to meet the needs of new entrants into agriculture	yes	yes – 9
Offers industry-related training: • AgriSuccess delivered 90 events	yes	yes

"We created the position of FCC Integrity Officer in 2005 to proactively ensure we maintain good corporate governance. My role is to receive and investigate disclosures concerning the code of conduct and ethics, and to guide employees with regards to the code. We want to ensure FCC continues to be a safe environment where people can speak up without fear of retribution."

Valerie Macdonald, FCC Integrity Officer and Director of Organizational Development.

Corporate governance and management systems

Acting with integrity is a core value at FCC. Our corporate values guide our conduct with colleagues, customers and stakeholders. We've established a code of conduct and ethics that includes whistleblower protection to ensure our employees feel safe and trusted and we expect them to act likewise when dealing with colleagues, customers, partners, suppliers and the general public. In 2005-06, we introduced an updated code of conduct and ethics and required all staff to sign it to ensure that explicit attention was paid to this important area. The code helps guide all employees in the demonstration of appropriate behaviours.

Our Board, with the exception of the CEO, are independent of management and the functions of the Board Chair and CEO are separate. In order to underscore our commitment to integrity, we've established a new position, the FCC Integrity Officer. This person works closely with the CEO and Board of Directors to uphold the highest standards of governance and accountability regarding the code of conduct and ethics.

Human resources management

We're building a strong culture at FCC where employees feel safe to present new ideas and are inspired to give their best to colleagues and to customers. We live by a set of 10 cultural practices that are unique to FCC. The results of this culture are seen everywhere. We are accountable for the things we say and do and how we do them, and for building respectful, trusting relationships.

FCC conducts an annual confidential employee opinion survey using the Hewitt Associates survey. This measures employee engagement by gathering opinions on many topics ranging from trust in senior management to satisfaction with pay and benefits. In 2003-04, FCC's employee engagement score was 69 per cent. In 2004-05, the results jumped to 81 per cent. For 2005-06, employee engagement rose to 84 per cent. This placed FCC 12th on the 50 Best Employers in Canada list, published by the Globe and Mail's Report on Business in partnership with Hewitt.

We encourage and support learning and development for employees. Annually, we spend more than 3.5 per cent of annual payroll toward individual employee development. FCC offers a customized field development program for lending operations staff, as well as leadership development training for managers, supervisors and Leadership Development Program participants.

An important part of the employee experience at FCC is celebrating our achievements, both large and small. Our Encore program empowers every staff member to recognize employee performance and reward colleagues.

We strive to maintain a balance between home and work. This is why FCC offers a number of flexible and attractive benefits and alternative work arrangements, including flex-time and paternity benefits.

"FCC SUPPORTS COMMUNITY GROUPS THROUGH DONATIONS AND FLEXIBLE SCHEDULING FOR EMPLOYEES TO VOLUNTEER THEIR TIME. I APPRECIATE THIS SUPPORT AND HAVE SEEN THE TREMENDOUS IMPACT THAT RESPONSIBLE CORPORATIONS HAVE WHEN THEY HELP COMMUNITY GROUPS SHAPE LIVES."

Robert Davies of the Moncton Loan Administration Centre has served as a director, president and parent with Turning Points Youth Parenting Centre. The centre provides resources and support to young parents to complete high school and post-secondary education, develop their parenting and life skills, and become effective role models for their children.

"MANY RURAL COMMUNITIES AND FAMILIES USE THE SERVICES OFFERED BY A FOOD BANK. THIS IS A WAY FOR ME AND RURAL CANADIANS TO GIVE BACK TO OUR NEIGHBOURS, FRIENDS AND CUSTOMERS."

Paul Lepage, FCC Account Manager based in Saskatoon, Saskatchewan.

Community investment and involvement

Giving back to the communities where our employees and customers live and work is another core value at FCC.

As a member of the Canadian Centre for Philanthropy's Imagine program, we give at least one per cent of our annual profits to not-for-profit community and industry organizations.[2] To support the business of agriculture, we focus on food and rural safety.

Our key partners include St. John Ambulance, 4-H, the Canadian Association of Food Banks and Agriculture in the Classroom. We believe that safer workplaces and a greater awareness of food-related issues contribute to the long-term success of Canadian agriculture.

The FCC AgriSpirit Fund enhances rural communities by providing a total of $400,000 in donations to support local capital projects. Last year, 37 projects across Canada, ranging from recreation centres and museums to childcare facilities and emergency services equipment, received financial contributions. This project is continuing in 2006 with 42 new projects.

FCC employees dedicate thousands of volunteer hours to charities across Canada. When employees donate 20 to 40 hours, they are eligible to win $250 to $500 in donations for their charity. In 2005-06, our contributions totalled 2,280 hours benefiting 62 charitable organizations, valued at $33,000 across the country.

When it comes to giving back to our communities, the Employee Matching Program gives even more. FCC donates another 50 cents to registered charities for every dollar employees raise. It's a great way to leverage dollars and encourage our employees to get involved.

Every year, we recognize World Food Day October 16 and work towards heightening awareness and motivating the public to address the struggle against hunger and malnutrition. Last year, Rene Belanger, FCC District Manager, drove a tractor across New Brunswick and Paul Lepage, FCC Account Manager, drove across central Saskatchewan in the second annual FCC Drive Away Hunger tour. There were 20 other FCC activities in support of World Food Day, from our corporate office challenge in Regina, to the efforts of each individual FCC office across Canada.

Environment, health and safety

Tools to help customers manage environmental risk include environmental questionnaires with every loan, site inspections, and environmental assessment reports from qualified consultants. Lending products such as our Enviro-Loan enable customers to improve their operations to meet environmental-friendly practices.

Starting June 2006, FCC will be subject to the *Canadian Environmental Assessment Act*. We've worked with the Canadian Environmental Assessment Agency to develop regulations defining our responsibilities. We amended our environmental assessment policy to incorporate well-balanced environmentally aware business practices into our daily operations.

These practices include small steps such as recycling and making energy efficient and environmentally conscious purchases of light bulbs, paper and office-related supplies.

[2] One per cent is based on a three-year rolling average.

"As my father would say, 'There is no reason for anyone in this world to be hungry.' The Drive Away Hunger tour allows us to make an immediate impact on people in our community."

Rene Belanger, FCC District Manager based in Moncton, New Brunswick.

"An investment by FCC in this project will make a major difference in the quality of life for agricultural producers in the area."

Gary Johnson, Eston town administrator, a recipient of a $20,000 donation towards a new fire truck from the 2004-05 FCC AgriSpirit Fund.

Human rights

At FCC, we respect the rights of the individual and have implemented a human rights policy and code of conduct. Whether it's working with customers, employees or suppliers and others in the agriculture world, we want to do the right thing.

Customers

Focusing on the customer is another key value. We take the time to know our customers and understand their needs. This allows us to tailor a solution right for them – from products to services. It might be a loan. It could be industry-related knowledge such as AgriSuccess training and publications, or AgExpert software. It could be networking with other partners or helping them market their own products.

Last year, to promote and educate the Canadian public on agriculture, food and our customers, we launched CanadianFarmersMarket.com and promoted it to urban Canadians through a national advertising campaign. It's a website where FCC customers can, at no cost, promote their goods directly to gourmet-loving consumers and anyone who appreciates premium products and ingredients. Consumers find recipes, read stories and learn about the food they eat, and buy direct from our customers.

When customers face adversity like flooding, BSE, avian flu, or drought, we are compassionate and look at each situation on a case-by-case basis. We want our customers to succeed and sometimes the answers don't come easy. We'll work around the situation by deferring payments or creating flexible repayment schedules. For Canadian agriculture to succeed, we need our customers to succeed.

We want to make every interaction with our customer an experience where they say, "Wow, that was easy, FCC really cares about my business." That's not just our job, it's our passion.

This past year, FCC helped 15 families through difficult times with the FCC Ag Crisis Fund. When our customers experience natural disasters such as fires, floods or tornados, we're here to help. Whether it's providing meals to volunteers, helping rebuild a farm building, or gift certificates towards purchasing lost household items, FCC cares.

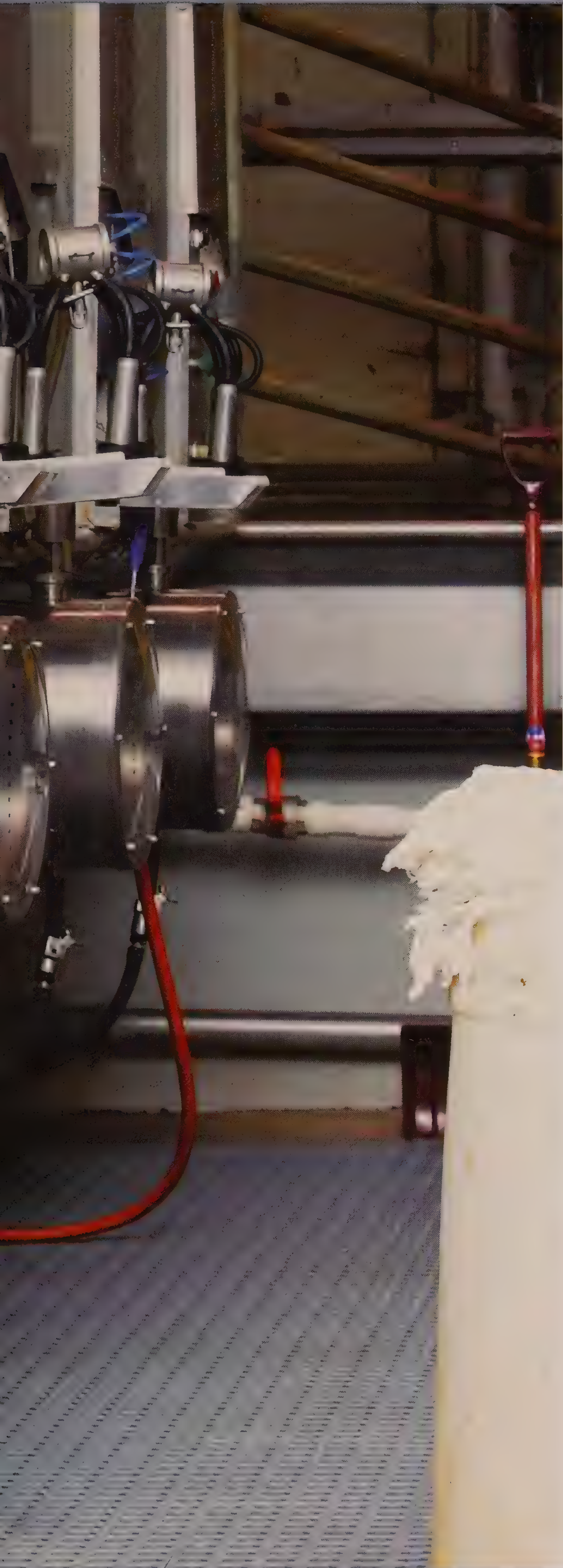
"After a fire devastated our customer's poultry operation, we were able to get them $1,000 from our Ag Crisis fund. They were very emotional when we helped them with this gift. It was a fantastic experience and helped me build trust in a new relationship and show how FCC as a company cares about customers."

Michael Menzi, FCC Account Manager in Listowel, Ontario.

"With CanadianFarmersMarket.com, we're reaching new markets, businesses and possibilities."

Gord Cheema – CanadianFarmersMarket.com customer

B.C.'s Fraser Valley Packers Inc. produce and package fresh and frozen raspberries and blueberries for domestic and international markets as far away as Japan.



Management's Discussion and Analysis

Overview of the MD&A

FCC Management's Discussion & Analysis (MD&A) provides management's perspective on the corporation's performance in fiscal 2005-06 through key performance indicators, an outlook for 2006-07 and risk management activities. The MD&A is presented in six sections:

Vision: Visionary leaders and trusted partners in finance and management services tailored to agriculture – leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.

Vision and strategy

In order to fulfil its vision, FCC must achieve financial success. It is important to generate a sufficient rate of return from operations to remain financially self-sustaining, as well as fund growth and strategic initiatives. FCC must also have the capability to withstand the market fluctuations intrinsic to the agriculture industry while continuing to support our customers through all economic cycles. The corporation is also expanding its product offerings, which now extend beyond financial products to business services. These services offer specialized knowledge to our customers. The corporation has a solid financial foundation, ensuring ongoing viability through sound financial and risk management practices.

Corporate measures

The following discussion outlines the key measures used to analyze financial success and performance against strategic objectives:

Portfolio growth: In order to generate a sufficient rate of return we must grow our number one revenue-generating asset, our portfolio. There are a number of factors contributing to our portfolio growth including net disbursements, loan maturities, loan renewals and prepayments. To assess our performance and opportunities we primarily focus on net disbursements, which is the largest contributor to portfolio growth.

Principal Not Due (PND) is the principal balance owing on loans. PND is used to assess the growth between business lines, geographic areas and enterprises as it represents the principal balance, excluding items such as arrears and interest accruals that are included within loans receivable. We also review the performance of our portfolio growth through the change in our market share of total farm debt outstanding.

Credit quality: In conjunction with portfolio growth, we assess the credit quality of the portfolio to determine the amount of allowance for credit losses that is required based on the risks within the portfolio and the industry. Loans in arrears and impaired loans are important indicators of risk within the portfolio. The level of allowance required determines the provision for credit losses, which is the expense charged to the income statement.

Efficiency and cost management: The net interest income remaining after deducting the provision for credit losses must cover administration expenses. We measure cost control performance using the efficiency ratio, which is the percentage of each dollar of net interest income required to cover administration expenses.

Financial results: Key measures used to assess our financial strength and success towards achieving our corporate vision include net interest income, net income, return on equity and debt-to-equity.

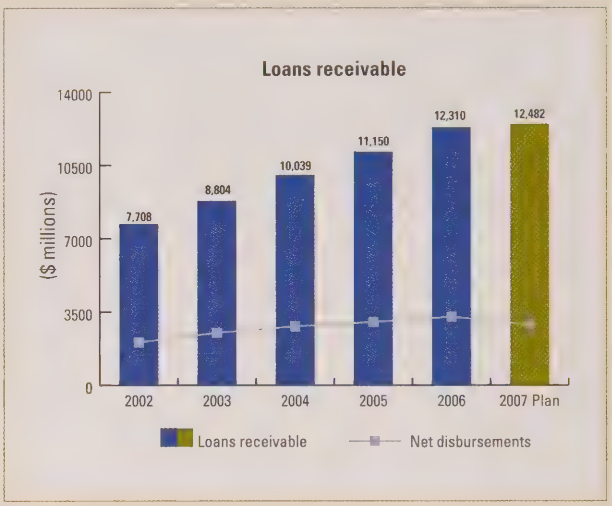
Caution regarding forward-looking statements

The MD&A includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary, and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates. To manage within this volatility, management routinely reforecasts financial results, as early as the first quarter.

Portfolio growth

Lending activity

FCC's portfolio experienced growth for the 13th consecutive year. The 2005-06 growth rate was 10.4 per cent. Loans receivable grew from $11,150 million in 2004-05 to $12,310 million in 2005-06 and generated $703 million in interest income. The largest contributing factor to the growth in loans receivable was net disbursements of $3,317 million, $250 million higher than the previous year. The prepayment rate was 6.5 per cent of opening loans receivable, 0.1 per cent lower than last year. The portfolio growth was offset somewhat by a lower loan renewal rate. The loan renewal rate was 97.3 per cent in 2005-06, 0.3 per cent lower than 2004-05.



Performance against 2005-06 plan and outlook for 2006-07

The plan for the loans receivable balance in 2005-06 was $11,617 million. Actual results reached $12,310 million, representing an additional $693 million in portfolio growth. This was primarily due to higher net disbursements, a higher renewal rate and a lower prepayment rate than the plan.

The plan for the loans receivable balance in 2006-07 is $12,482 million. The assumptions around the 2006-07 plan were based on a lower loans receivable balance at year end 2005-06. Portfolio growth is also anticipated to slow down due to lower planned net disbursements, a lower renewal rate and an increase in the prepayment rate. A number of issues are negatively affecting the agriculture market and are expected to slow the demand for credit.

	2007 Plan	2006	2006 Plan	2005
Loans receivable ($ millions)	12,482	12,310	11,617	11,150
Net disbursements ($ millions)	2,939	3,317	2,745	3,067
Renewal rate (per cent)	96.0	97.3	96.0	97.6
Prepayment rate (per cent)	7.5	6.5	7.5	6.6

Lines of business

Prior to 2005-06, lending was classified under three business lines: Farm Finance, Agribusiness and Alliances. Under these categories, lending to larger primary producers was classified as Agribusiness. This did not provide clarity regarding loans supporting primary production versus those supporting value-added service providers. In 2005-06, these business lines were redefined and renamed: AgProduction, AgValue and Alliances. AgProduction includes all primary producers regardless of their size. AgValue includes customers who are suppliers and/or processors that are selling to, buying from, and otherwise serving primary producers. There was no impact to the Alliance business line.

AgProduction refers to primary producer customers who have loans with FCC. They run agricultural operations that produce raw commodities such as crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables, and alternative livestock. These include but are not limited to vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and land-based) and lifestyle customers.

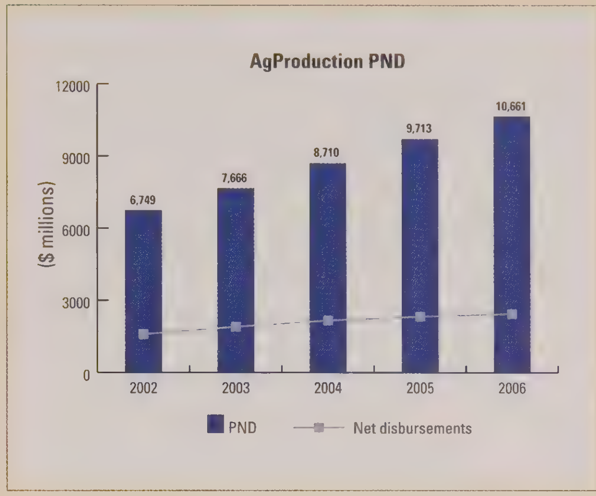
AgValue refers to agribusiness customers who obtain loans from FCC. It includes customers who are suppliers and/or processors that are selling to, buying from, and otherwise serving primary producers. These include equipment manufacturers, dealers, input providers, wholesalers, marketing firms, sawmills and processors.

Alliances are relationships established by contract between FCC and other agricultural or financial organizations designed to pool talents and offer expanded customer services.

PND and net disbursements by line of business

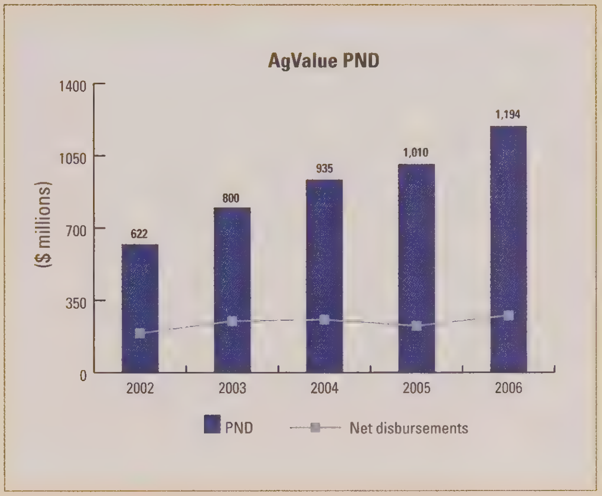
AgProduction

AgProduction PND grew by 9.8 per cent from $9,713 million in 2004-05 to $10,661 million in 2005-06. Net disbursements increased slightly from $2,369 million to $2,485 million in 2005-06. AgProduction net disbursements as a percentage of total net disbursements decreased from 77.2 per cent to 74.9 per cent due to the relative growth in the AgValue and Alliance business lines. The Western, Prairie and Ontario areas experienced increases in AgProduction lending while the Quebec and Atlantic areas experienced decreases. The poultry, beef, dairy and other enterprises contributed to the largest increase in net disbursements for the AgProduction business line.



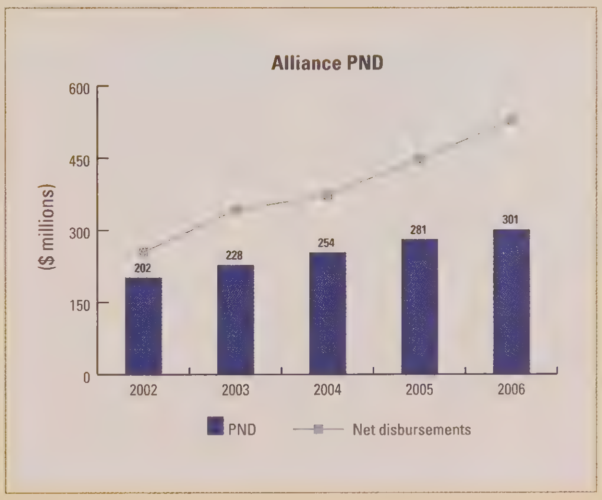
AgValue

AgValue PND grew by 18.2 per cent from $1,010 million in 2004-05 to $1,194 million in 2005-06. Net disbursements were up from $248 million in 2004-05 to $302 million in 2005-06. The Western, Prairie, Ontario and Atlantic areas all had increases in net disbursements. Only Quebec experienced a decrease. The crops and poultry enterprises accounted for the largest increase in net disbursements for the AgValue business line.



Alliances

Alliance PND grew by 7.1 per cent from $281 million in 2004-05 to $301 million in 2005-06. Alliance net disbursements increased by 17.8 per cent from $450 million in 2004-05 to $530 million in 2005-06. Alliance lending largely supports input type loans that tend to be repaid in less than one year. This results in net disbursements exceeding the portfolio balance. The beef and hog enterprises provided the largest increase in Alliance lending. We continue to expand our Alliance partnerships and product offerings to capitalize on the opportunities within the market.

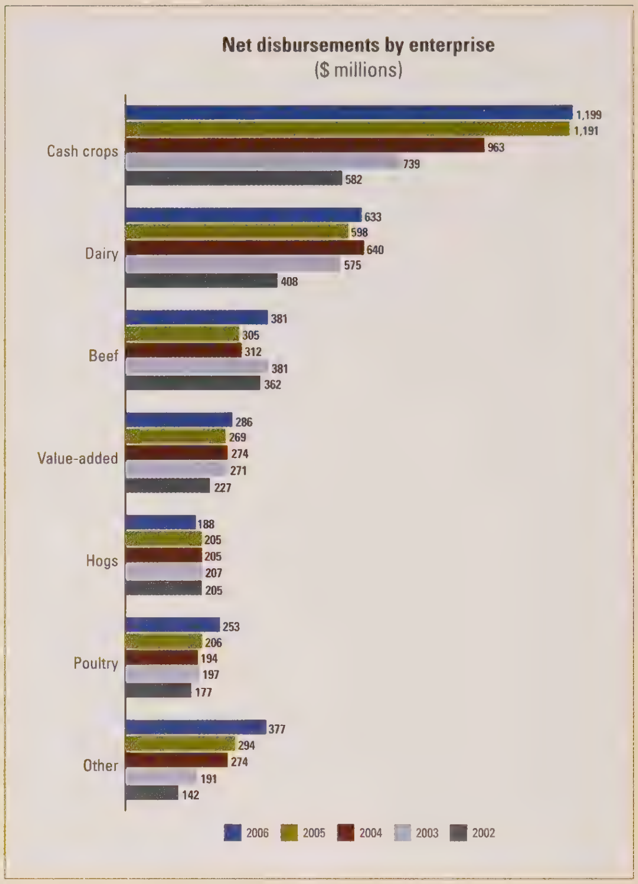


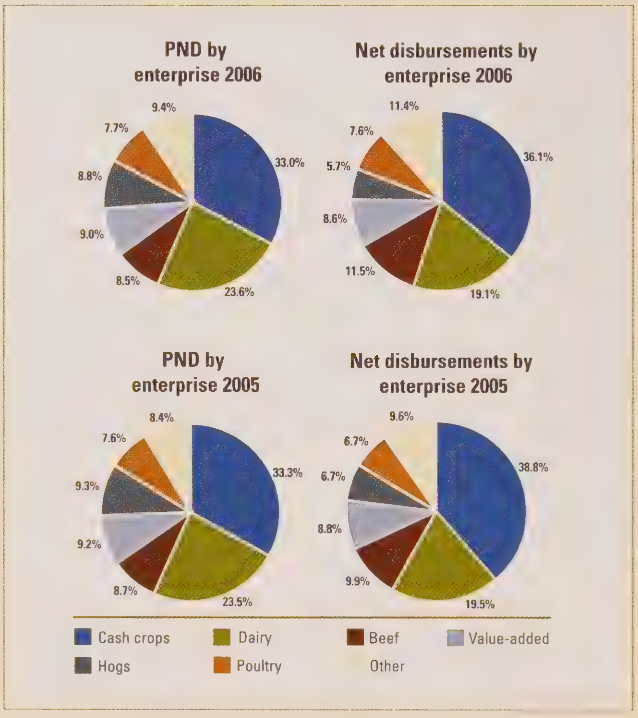
PND and net disbursements by enterprise

FCC lends to all areas of agriculture across Canada and groups them into seven major enterprises. By diversifying our portfolio between these different enterprises, we minimize the impact of enterprise – specific issues and risks.

As a percentage of total net disbursements, the cash crops enterprise decreased by 2.6 per cent, while the beef and other enterprises increased by 1.6 per cent and 1.7 per cent respectively. The largest increases in net disbursements from the prior year were in the beef, poultry and other enterprises with 24.9 per cent, 22.8 per cent and 28.2 per cent respectively. The large increase in lending to the beef enterprise was due to the renewed optimism for these sectors with the reopening of the Canada-U.S. border. The significant growth in the other enterprise was made up, in part, of an increase in net disbursements to individuals whose primary source of income is off-farm.

The total PND of the two major agriculture enterprises within the portfolio, cash crops and dairy, has remained relatively flat year over year at 56.6 per cent in 2005-06 from 56.8 per cent in 2004-05. The total PND in the other category increased from 8.4 per cent in 2004-05 to 9.4 per cent in 2005-06. The largest decrease was in the hog enterprise from 9.3 per cent in 2004-05 to 8.8 per cent in 2005-06.





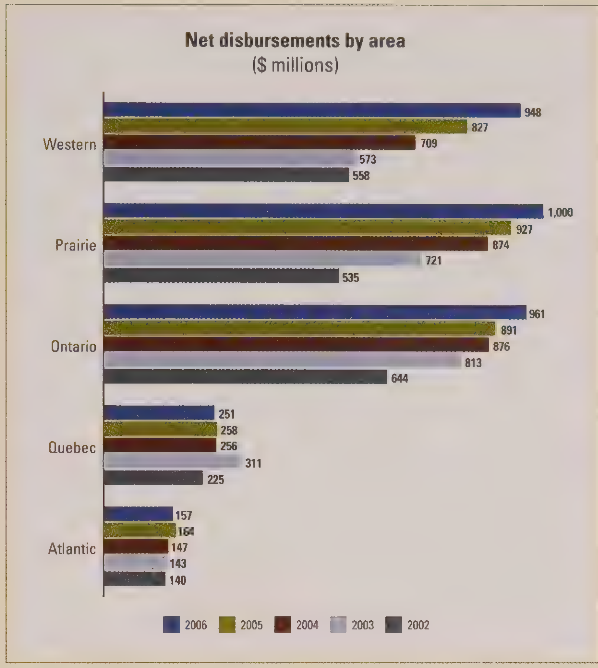
PND and net disbursements by geographic area

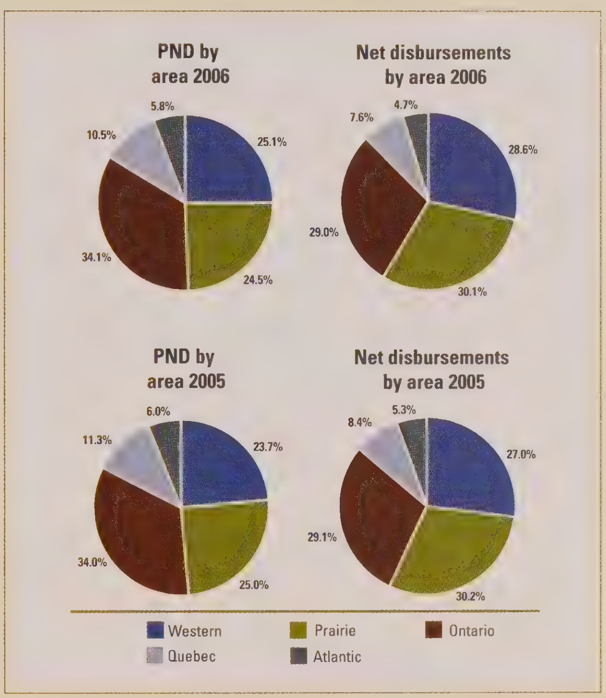
FCC promotes portfolio diversification by geographic area by maintaining a strong and consistent presence throughout rural Canada. We have offices in over 100 rural communities from coast to coast.

All areas across Canada experienced PND growth in 2005-06. The largest PND growth was in the Western, Ontario and Prairie areas, with growth of 17.1, 10.8 and 7.7 per cent respectively. The Quebec sales area experienced the lowest growth at 3.0 per cent due to very low growth in agriculture debt within the province as well as competitive pressures. As a proportion of total PND, the Western area increased from 23.7 per cent in 2004-05 to 25.1 per cent in 2005-06. The Ontario and Atlantic areas remained at similar levels as the prior year, while the Prairie and Quebec sales areas decreased slightly from 25.0 per cent to 24.5 per cent and 11.3 to 10.5 per cent respectively.

Net disbursements increased over the previous year in Western, Prairie and Ontario sales areas and decreased slightly in Quebec and Atlantic Canada. The increase in net disbursements for the Western, Prairie and Ontario areas were $121 million, $73 million and $70 million respectively. The largest increase in the Western and Prairie areas was in the beef enterprise. The largest increase in the Ontario area was in the poultry enterprise.

Net disbursements for the Western area increased as a proportion of total net disbursements from 27.0 per cent in 2004-05 to 28.6 per cent in 2005-06. The Prairie and Ontario areas remained flat relative to the prior year, and the Quebec and Atlantic areas experienced decreases. The Quebec area experienced the largest decrease from 8.4 per cent in 2004-05 to 7.6 per cent in 2005-06.





Market share

FCC's commitment to the Canadian agriculture marketplace is demonstrated not only by growth in its own portfolio but through its improving share of the farm debt market. Statistics Canada indicates that farm debt outstanding increased to $48.9 billion at the end of 2004. This represents an increase of $2.3 billion over the previous year and $9.9 billion over the past five years. FCC's market share as of December 31, 2004 was 20.4 per cent, and was only surpassed by all of the chartered banks combined at 43.3 per cent. FCC is followed by the credit unions at 16.6 per cent, Treasury Branch at 2.9 per cent, private individuals at 7.9 per cent and other at 8.9 per cent. In the past five years, FCC's market share has improved by 3.1 per cent.

Total farm debt outstanding as at December 31 (per cent)

	2004	2003	2002	2001	2000
Chartered banks	43.3	44.4	44.2	45.2	46.4
Farm Credit Canada	20.4	19.1	19.5	18.3	17.3
Credit unions	16.6	16.4	15.7	15.5	14.9
Treasury Branch	2.9	3.2	3.1	3.2	3.1
Private individuals	7.9	7.5	8.7	7.6	7.5
Other	8.9	9.4	8.8	10.2	10.8
Total farm debt outstanding ($ millions)	48,943.9	46,663.7	44,497.1	41,060.0	39,077.8

* All figures back to 2002 have been updated according to Statistics Canada data as of June 2005. Figures are updated on a semi-annual basis for all categories.

Credit quality

The allowance for credit losses adjusts the value of loans receivable to reflect their estimated realizable value. Management uses a number of indicators to assess the appropriate level of allowance for credit losses required, including loans in arrears and impaired loans. In assessing their estimated realizable value, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. The allowance for credit losses is broken down into two components:

Specific allowance – provides for probable losses on specific loans that have become impaired. Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.

General allowance – provides for management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. It considers specific events to identify loans that have shown some deterioration in credit quality. The general allowance also represents management's best estimate of the probable unidentified losses in the portfolio. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans.

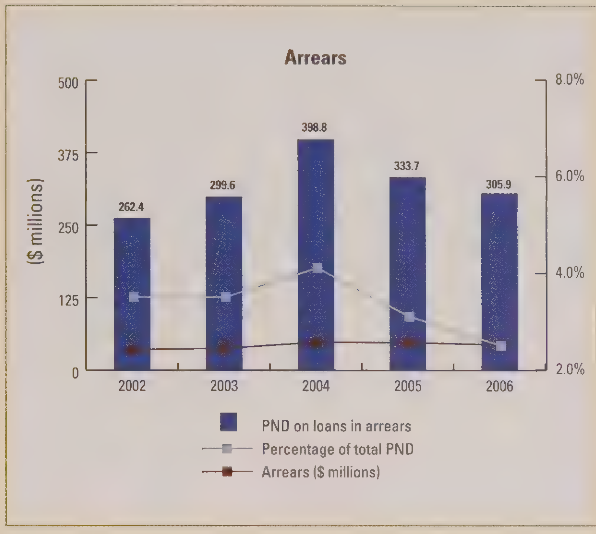
Once the appropriate level of allowance is determined, the necessary amount of provision for credit loss is charged to the income statement to bring the allowance to the desired balance.

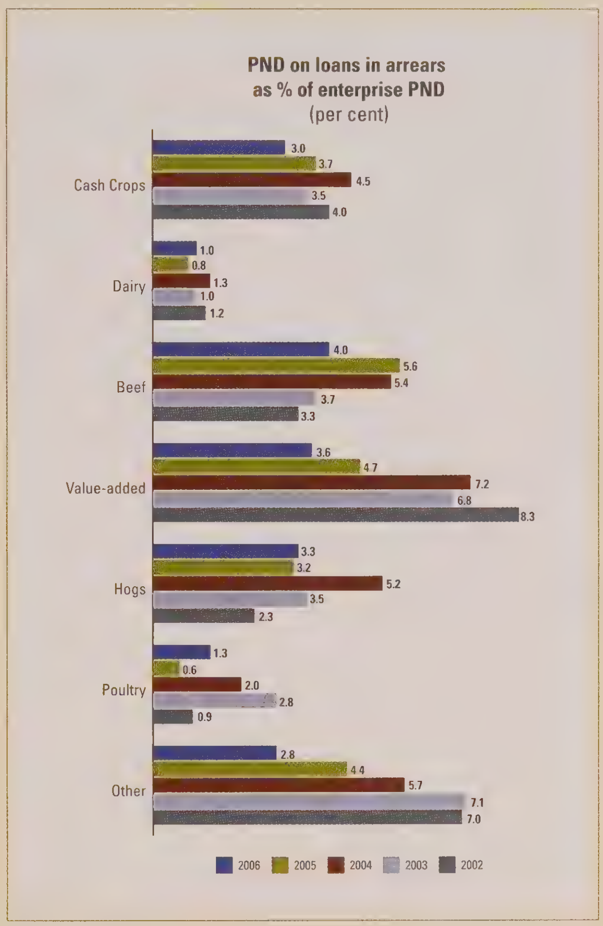
Loans in arrears

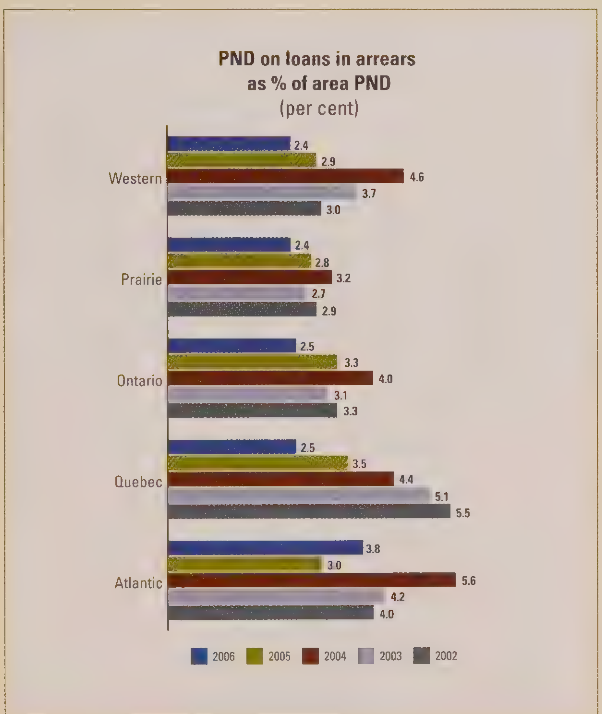
In 2005-06 arrears decreased to $36.4 million from $39.2 million in 2004-05, with PND on loans in arrears decreasing to $305.9 million from $333.7 million. PND on loans in arrears, as a percentage of total PND, decreased 0.6 per cent to 2.5 per cent.

Arrears levels across Canada decreased in all enterprises except for a slight increase in dairy, poultry and hogs. The decrease in arrears reflects improved industry conditions such as the reopening of the Canada/U.S. border to Canadian cattle. Also, the customer support strategies that have been established over the past few years have had positive impacts on overall arrears levels. The number of loans in arrears has decreased substantially, however, this was partially offset by the average principal balance of loans in arrears having increased slightly.

Although arrears and impaired loan levels have decreased from the previous year, there are a number of factors within the agriculture market that have yet to fully impact our portfolio. These include, but are not limited to, flat or negative revenue growth in the agriculture industry and significant increases in production costs. We continue to monitor the portfolio and proactively assist our customers through difficult times.







Impaired loans

Impaired loan balances at the end of 2005-06 totaled $167.6 million, representing a decrease of $7.6 million from $175.2 million in 2004-05. Impaired loans as a percentage of closing loans receivable decreased to 1.4 per cent from 1.6 per cent in 2004-05. FCC continually monitors its portfolio and the industry to identify the potential for developing proactive solutions to help customers through difficult times.

Provision for credit losses

The provision for credit losses decreased by $32.8 million from $95.2 million in 2004-05 to $62.4 million in 2005-06, primarily due to a low level of write-offs.

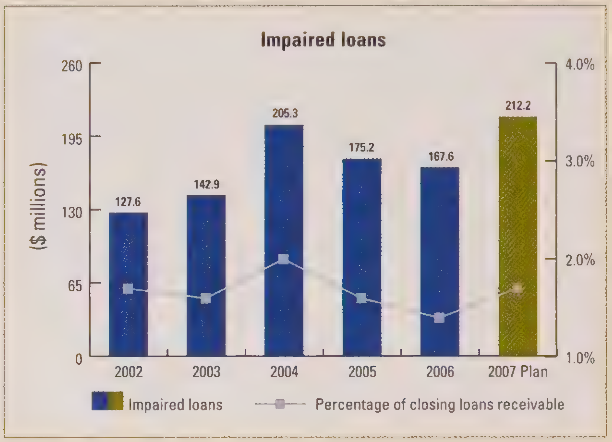
Allowance for credit losses

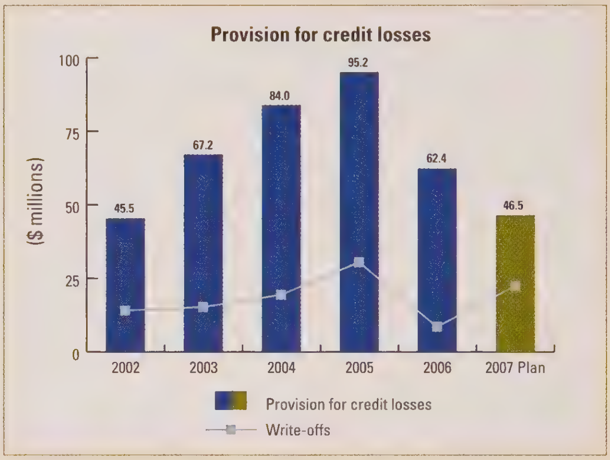
Due to growth in the portfolio, the allowance for credit losses increased by 11.2 per cent to $514.3 million in 2005-06, from $462.5 million in 2004-05. The allowance as a percentage of opening loans receivable remained constant with the previous year at 4.6 per cent.

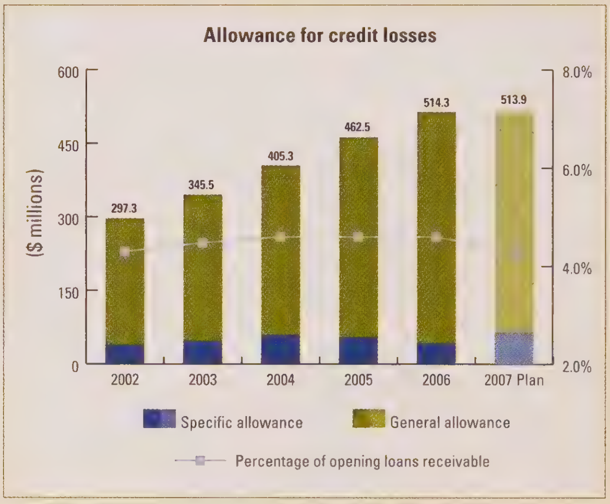
Performance against 2005-06 plan and outlook for 2006-07

The arrears balance in 2005-06 was $44.7 million below plan and the impaired loans balance was $82.2 million below plan. Provision for credit losses was $15.8 million below plan reflecting the higher than plan portfolio growth offset by the lower than planned write-offs. However, the allowance for credit losses was $3.2 million ahead of plan due to the larger growth in the loan portfolio in 2005-06 relative to the plan.

The outlook for 2006-07 is a similar level of allowance for credit losses with a shift between the general allowance and the specific allowance due to an anticipated increase in impaired loans.





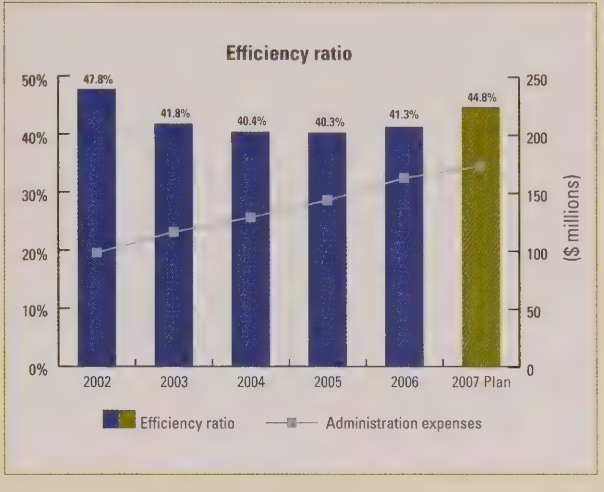


	2007 Plan	2006	2006 Plan	2005
Arrears ($ millions)	87.2	36.4	81.1	39.2
Impaired loans ($ millions)	212.2	167.6	249.8	175.2
Provision for credit losses ($ millions)	46.5	62.4	78.2	95.2
Allowance for credit losses ($ millions)	513.9	514.3	511.1	462.5

Efficiency and cost management

Efficiency ratio

The efficiency ratio measures the percentage of each dollar earned in net interest income that is spent in the operation of the business. A low efficiency ratio indicates an efficient use of resources. In 2005-06 our efficiency ratio increased to 41.3 per cent from 40.3 per cent in 2004-05. Net interest income grew by 10.4 per cent and administration expenses grew by 13.4 per cent resulting in an increase in the efficiency ratio. Personnel expenses, specifically salaries, experienced the highest increase from 2004-05 to 2005-06 mainly due to the addition of 91 full-time equivalent employees to support our continuing portfolio growth and the achievement of our strategic initiatives.



Performance against 2005-06 plan and outlook for 2006-07

Administration expenses were $4.0 million higher than plan in 2005-06, however the efficiency ratio was 1.7 per cent lower. The majority of the increase compared to plan was due to increased salary expenses. The improved efficiency ratio was reflective of the higher actual portfolio growth in 2005-06 versus plan and a more efficient use of resources to support that growth. However, we expect the efficiency ratio to increase for the 2006-07 plan. Increases in administration expenses are necessary for investment in the strategic initiatives and infrastructure to support continued growth and success.

	2007 Plan	2006	2006 Plan	2005
Administration expenses ($ millions)	173.3	163.0	159.0	143.7
Efficiency ratio (per cent)	44.8	41.3	43.0	40.3

Financial results

Net interest income

Net interest income is the difference between the interest earned on assets and interest expense on borrowings. In 2005-06 net interest income increased to $388.4 million, a 10.4 per cent increase over the previous year. The two major factors contributing to the increase are portfolio volume and net interest margin, which is net interest income expressed as a percentage of average assets. In 2005-06 the portfolio grew by $1.2 billion or 10.4 per cent over the previous year, which contributed $30.8 million more in net interest income. The net interest margin of 3.21 per cent is slightly lower than 2004-05 of 3.22 per cent. The increase in margin due to an increase in total capitalization contributed $5.7 million in additional net interest income over 2004-05.

Net interest margin 2006	Average daily balance ($ millions)	Rate (per cent)
Earning assets:		
Fixed loan principal balance	$ 4,076.1	6.70%
Variable loan principal balance	7,518.5	5.50%
Investments	627.5	2.93%
Venture capital investments	31.4	11.10%
Total earning assets	$ 12,253.5	5.78%
Total interest-bearing liabilities	10,741.9	3.13%
Total interest rate spread		2.65%
Impact of total capitalization	$ 1,511.6	0.56%
Net interest margin		3.21%

The net interest margin is intended to cover credit risks expressed through the provision for credit losses and administration expenses, as well as yield a sufficient return to enable the corporation to reinvest into future growth and viability.

The following table outlines the historical year-over-year increases to net interest income and the amount of change that is due to changes in portfolio volume and changes in the net interest margin.

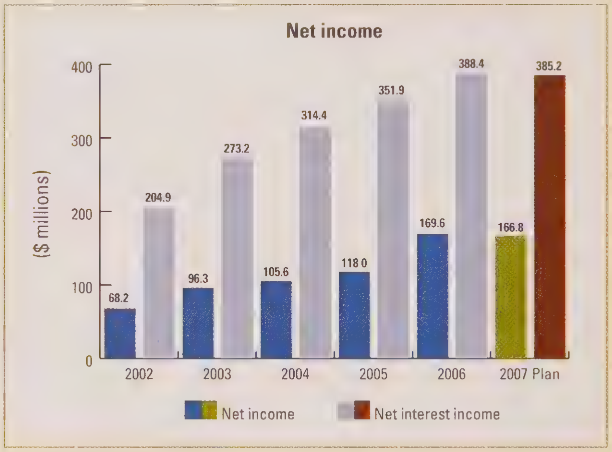
Net interest income and margin

($ millions)	2007 Plan	2006	2005	2004	2003	2002
Interest income	758.6	725.1	627.8	622.1	562.0	548.6
Interest expense	373.4	336.7	275.9	307.7	288.8	343.7
Net interest income	385.2	388.4	351.9	314.4	273.2	204.9
Average total assets	12,677.5	12,100.7	10,940.8	9,739.1	8,563.3	7,562.8
Net interest margin (per cent)	3.04	3.21	3.22	3.23	3.19	2.71
Year-over-year change in net interest income due to:						
Increase in volume	13.1	30.8	31.2	27.6	26.3	14.5
Changes in margin	(16.3)	5.7	6.3	13.6	42.0	24.9
Total change to net interest income	(3.2)	36.5	37.5	41.2	68.3	39.4

Net income

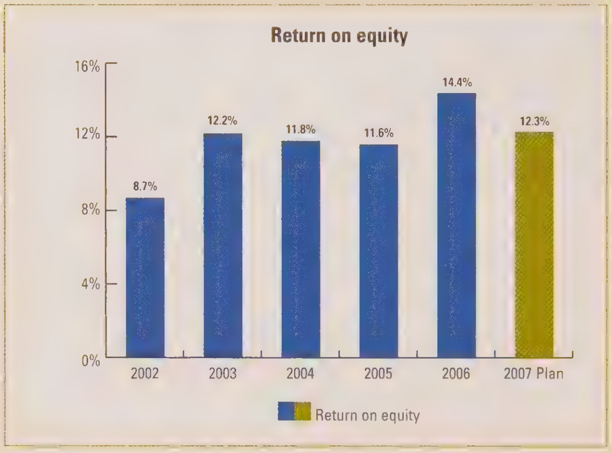
Net income is composed of net interest income plus other income less the provision for credit losses and administration expenses.

Net income in 2005-06 increased to $169.6 million, a 43.7 per cent increase from the previous year. Portfolio growth and a lower provision for credit losses, somewhat offset by an increased efficiency ratio, contributed to the growth in net income. FCC is a self-sustaining entity and therefore we reinvest our earnings back into agriculture through financing portfolio growth, new product development and business services that support the agriculture industry.



Return on equity

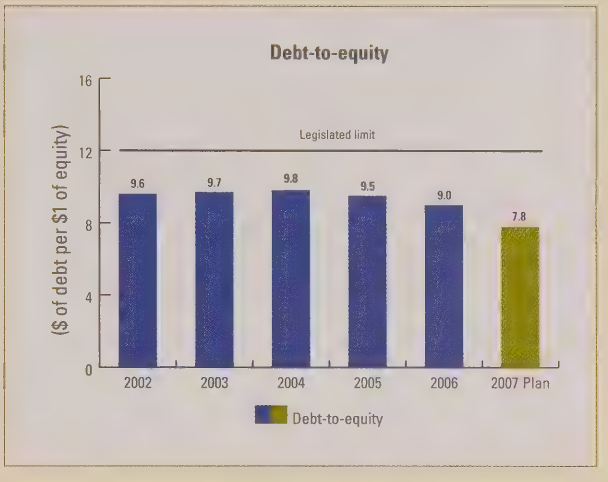
Return on equity is used to evaluate our performance, financial viability and our ability to fund future growth and strategic initiatives. Return on equity increased in 2005-06 to 14.4 per cent from 11.6 per cent in 2004-05. Decreased provision for credit losses and strong portfolio growth, partially offset by an increase in the efficiency ratio, contributed to the increase in return on equity.



Debt-to-equity

Debt-to-equity is the amount of debt the corporation has outstanding in relation to each dollar of equity. It is also a measure of risk as the more a corporation borrows against a single dollar of equity, the greater its risk. FCC's legislated debt-to-equity limit is 12 to 1.

Debt-to-equity decreased from 9.5 to 1 in 2004-05 to 9.0 to 1 in 2005-06. The decrease is due to the growth in net income and retained earnings and a $15 million injection of equity from the Government of Canada, which is being used to expand FCC Ventures investments. When the growth in equity exceeds the portfolio growth the debt-to-equity ratio is reduced due to the reduced requirement for borrowing funds.



Performance against 2005-06 plan and outlook for 2006-07

In 2005-06 net interest income was $27.6 million above plan due to the portfolio growth exceeding plan and higher than planned margin levels. Net income exceeded plan by $36.9 million due to the increase in net interest income and a lower than planned provision for credit losses. The resulting return on equity ratio was 2.9 per cent above plan. Debt-to-equity was 0.3 higher than plan due to the higher than planned portfolio growth levels.

Net interest income is expected to decrease in 2006-07 by $3.2 million from 2005-06 due to a reduction in lending margins. Net income is expected to decrease to $166.8 million in 2006-07 due to increases in administration expenses partially offset by reduced level of provision for credit losses. Return on equity is expected to decrease due to a decreased level of portfolio growth and a planned increase in administration expenses leading to an increase in our efficiency ratio. This is due to investment in the strategic initiatives and infrastructure necessary to support our continued growth and success. As we are expecting a slowdown in growth for 2006-07, the debt-to-equity ratio is expected to drop as our equity will grow at a higher rate than the portfolio, reducing the borrowing requirements per dollar of equity.

	2007 Plan	2006	2006 Plan	2005
Net interest income ($ millions)	385.2	388.4	360.8	351.9
New lending margin (per cent)	2.53	2.60	2.53	2.63
Net interest margin (per cent)	3.04	3.21	3.11	3.22
Net income ($ millions)	166.8	169.6	132.7	118.0
Return on equity (per cent)	12.3	14.4	11.5	11.6
Debt-to-equity ($ of debt per $1 equity)	7.8	9.0	8.7	9.5

Funding activity

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium and Long-Term Note (MTN) Program (FCC bonds);
- Euro Commercial Paper Program; and
- Euro Medium-Term Note (EMTN) Program.

Short-term funding

Short-term funding consists of borrowings with a term to maturity of less than one year. This includes the Domestic and Euro Commercial Paper programs as well as MTN and EMTN debt with less than one year to maturity. The outstanding short-term borrowings at March 31, 2006 were $4.4 billion, compared to $2.7 billion at March 31, 2005. The increase in short-term borrowings supports a corresponding increase in variable-rate mortgages in our asset portfolio.

Medium and long-term funding

Medium to long-term funding consists of all borrowings with a term to maturity of more than one year. This includes all MTN and EMTN debt with more than one year to maturity. During 2005-06, FCC borrowed a total of $2.5 billion in medium and long-term funds, down from $2.8 billion in 2004-05. The decrease is due to diminished retail note issuance as a result of the rising interest rate environment and flat yield curve experienced in the later part of the year. FCC had no EMTN issuance in 2005-06, compared to $257.1 million in 2004-05. FCC withdrew from the EMTN market in the fall of 2004 due to uncertainty regarding new European Union regulations, which came into effect July 2005. On February 10, 2006, FCC renewed its EMTN program and anticipates volumes under this program to increase to historical volumes for fiscal 2006-07.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2005-06, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings are detailed below as at March 31, 2006.

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

FCC continuously pursues opportunities to diversify funding sources and access cost-effective funds from the capital market. Such initiatives are established pursuant to and in accordance with the Minister of Finance's Guidelines for Market Borrowings by Crown Corporations.

Capitalization

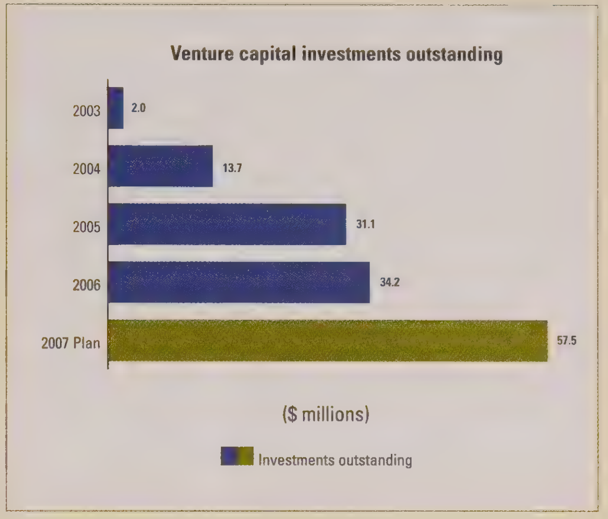
FCC's gross assets are $13,090.6 million, which are supported by equity and allowances of $1,778.1 million. At this level of capitalization, 13.58 per cent (2004-05 – 13.04 per cent) of assets do not require external debt financing.

($ millions)	2007 Plan	2006	2005	2004	2003	2002
Equity:						
Capital	562.7	547.7	532.7	507.7	507.7	507.7
Retained earnings	883.7	716.1	551.8	437.5	331.9	235.6
Subtotal	1,446.4	1,263.8	1,084.5	945.2	839.6	743.3
Allowance for credit losses	513.9	514.3	462.5	405.3	345.5	297.3
Total capitalization	1,960.3	1,778.1	1,547.0	1,350.5	1,185.1	1,040.6
Gross assets not requiring debt financing (per cent)	14.77	13.58	13.04	12.73	12.71	12.73

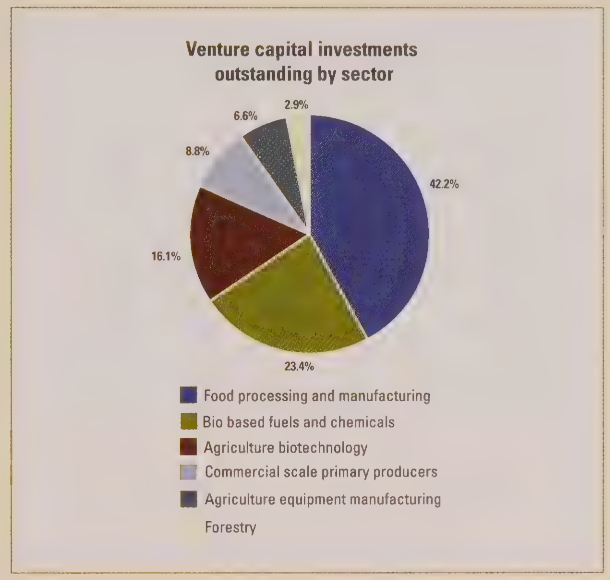
Business services

FCC Ventures

FCC Ventures, Farm Credit Canada's venture capital division, completed its fourth year of operations in fiscal 2006. Over the past four years FCC Ventures, together with its funding partners, has provided over $100 million in funding to the agriculture industry across Canada. During the year FCC Ventures opened two new offices, one in Oakville, Ontario, and the other in Calgary, Alberta. This strengthens FCC Ventures' presence in key regional markets across the country and allows us to work more closely with our customers in executing their business plans.



During the year, the FCC Ventures' portfolio reached $34.2 million with FCC Ventures investing $12.1 million. Our co-investment partners contributed an additional $15.0 million to the Canadian agriculture industry. In addition, FCC Ventures successfully exited four investments during the year, returning $9.0 million of invested capital and creating capital gains of $2.0 million in addition to interest and dividend income.



The largest portion of FCC Ventures' portfolio is in the food processing and manufacturing sector. FCC Ventures continues to support growth in the agriculture market through its investments and by raising awareness of potential investment opportunities within the venture capital and financial markets.

Performance against 2005-06 plan and outlook for 2006-07

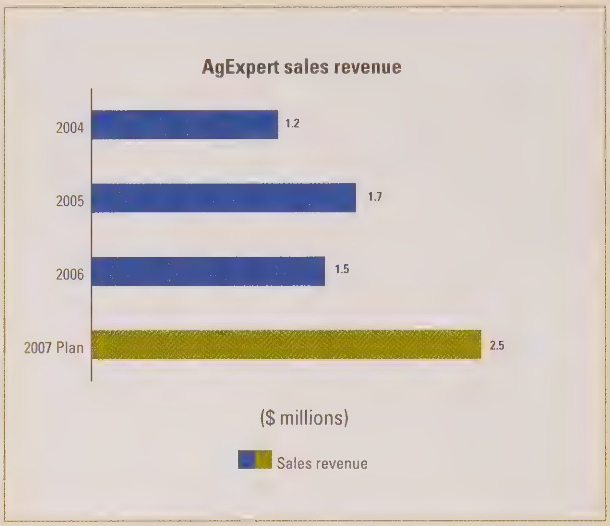
The 2005-06 plan for new venture capital investments was $18.0 million. Actual investments were $12.1 million, $5.8 million below plan. The outstanding portfolio of direct capital invested at the end of 2005-06 was $34.2 million or $11.0 million below plan. The lower than anticipated portfolio balance was primarily due to the four exits that occurred during the year and lower than planned investments for 2005-06.

At March 31, 2006, the ratio of co-investment dollars per FCC Ventures' dollars invested was 1.9 to 1. This is well above the plan of 1.3 but sightly lower than 2004-05 of 2.1. The outlook for 2006-07 is direct capital investments outstanding of $57.5 million.

	2007 Plan	2006	2006 Plan	2005
Direct capital investments outstanding ($ millions)	57.5	34.2	45.2	31.1

AgExpert

AgExpert is Canada's leading publisher of farm management software offering the AgExpert Analyst accounting software and AgExpert Field Manager programs and related support to primary producers. In the past year, FCC continued to enhance AgExpert management software for application across Canadian agriculture and strengthen the connection to the FCC brand. New versions of the accounting software (AgExpert Analyst 2005) and field management software (AgExpert Field Manager Version 5.0) as well as support services generated $1.5 million in gross revenues in 2005-06. This is an 11.8 per cent decrease in software and support sales from the previous year.



Key performance drivers of AgExpert include the product's ongoing relevance to agriculture-specific market requirements, including compliance programs such as the Canadian Agriculture Income Stabilization (CAIS) program and emerging food safety production initiatives. Expanded product usage by key industry influencers and stakeholders will enable market share growth and revenue increases.

Performance against 2005-06 plan and outlook for 2006-07

Software sales were below plan for the past year, however sales are forecasted to increase to $2.5 million in 2006-07. These increases are expected to occur as AgExpert products continue to gain recognition in the marketplace and build on the strength of the FCC brand and distribution network.

	2007 Plan	2006	2006 Plan	2005
Sales revenue ($ millions)	2.5	1.5	2.8	1.7

AgriSuccess

The mandate of AgriSuccess is to advance management practices in Canadian agriculture through the delivery of high quality information and learning. Today's AgProduction and AgValue operators are sophisticated and need more advanced skills to manage their operations.

In 2005-06 the AgriSuccess program offered eight different management workshops in the area of human resource management (recruiting and retaining employees), financial management (management accounting systems and ratio analysis), succession planning, estate planning, vision/goal setting and commodity price risk management. These workshops are instructed by experts, who deliver a high-quality, interactive learning experience.

To build upon this learning experience, AgriSuccess also delivers an intensive multi-day program, Advanced Farm Manager. This course presents all aspects of strategic business planning and is delivered by nationally recognized experts from George Morris Centre and Laval University.

AgriSuccess delivers valuable information through the AgriSuccess Express and AgriSuccess Journal. The Express brings agricultural news electronically to inboxes every week. The Journal was enhanced this year to a 16-page, high-quality bi-monthly magazine, which provides leading edge agricultural management information. Both publications are edited and written by professional agriculture journalists. The Express and Journal are free publications and subscriptions to both are available from our website.

Performance against 2005-06 objectives and outlook for 2006-07

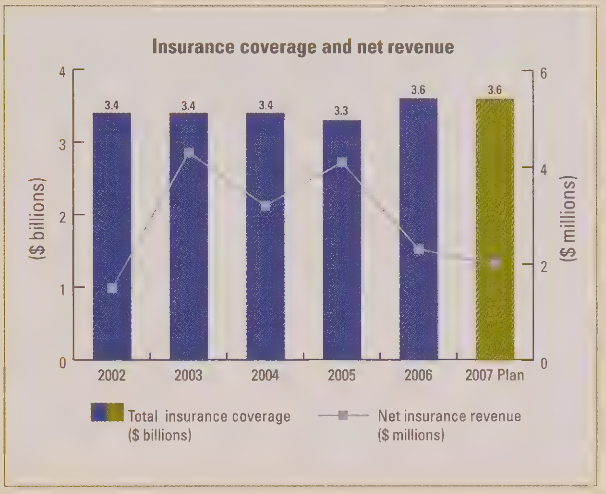
There were 77 workshops delivered across Canada and 12 seminars were held in both official languages. The average attendance at workshop events increased 47 per cent over 2004-05, and 47 more events were held over last fiscal year, due to increase in demand. In total, 3,169 participants attended an AgriSuccess event this past year, 1,169 participants above objective. The intent is for workshop and seminar attendance to be 3,000 in 2006-07. We will be investigating opportunities to advance management practices through other ways beyond workshops and seminars.

The AgriSuccess Journal is distributed to over 14,983 subscribers, 483 subscribers above objective. AgriSuccess Express reaches 17,899 e-mail inboxes each week. Circulation continues to grow and we expect to reach 22,000 in 2006-07.

	2007 Objectives	2006	2006 Objectives	2005
AgriSuccess participants	3,000	3,169	2,000	1,626
AgriSuccess Express distribution	22,000	17,899	16,500	–
AgriSuccess Journal distribution	25,000	14,983	14,500	13,087

AgriAssurances

FCC has been offering group creditor life insurance since 1960, providing protection for our customers, their families and businesses. Enhancements to FCC insurance plans have included provision for additional benefits to customers, such as accidental dismemberment and early payout in the case of diagnosis of terminal illness. Revolving credit insurance was introduced in 2005-06 in order to allow for coverage on Advancer loans, which were not previously insurable. Other life insurance plans offered include: key person, payment protection and level coverage insurance. FCC group creditor insurance plans are underwritten by Sun Life Assurance Company of Canada.



At the end of 2005-06, the program had $3.6 billion of outstanding loans with insurance coverage compared to $3.3 billion at the end of 2004-05. New insurance coverage sold in 2005-06 was $592 million compared to $442 million in 2004-05. Net revenues from AgriAssurances varies from year to year depending on claims paid. Net insurance revenues for 2005-06 was $2.3 million compared to $4.1 million in 2004-05.

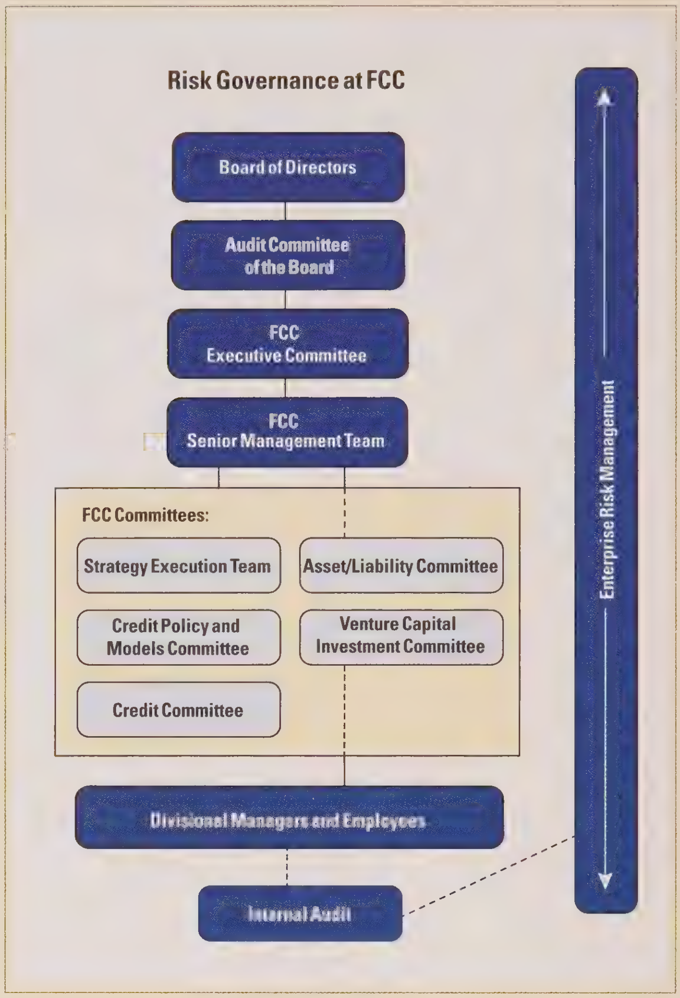
Performance against 2005-06 plan and outlook for 2006-07

Net revenues from AgriAssurances are quite volatile from year to year depending on claims. Net revenues were $2.3 million in 2005-06, $0.4 million higher than plan. Over the last three years we have experienced below average claim levels. With claims projected at an average historic level, the net insurance revenue for 2006-07 is projected at $2.0 million.

	2007 Plan	2006	2006 Plan	2005
Net insurance revenue ($ millions)	2.0	2.3	1.9	4.1

Enterprise risk management

All of FCC's business activities involve risk. Risk management is key to protecting FCC's customers, business interests and long-term viability. Enterprise Risk Management (ERM) helps us balance our risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives. ERM creates a common understanding of risk, provides a framework to comprehensively identify risks and risk interdependence, and ensures that our risk-taking activities and risk management practices are appropriate to meet our customers' needs and aligned with our shareholder's expectations.



Risk governance

The **Board of Directors** is responsible to review management's enterprise risk management policies, control systems and practices that have been put in place to manage key risks identified by management.

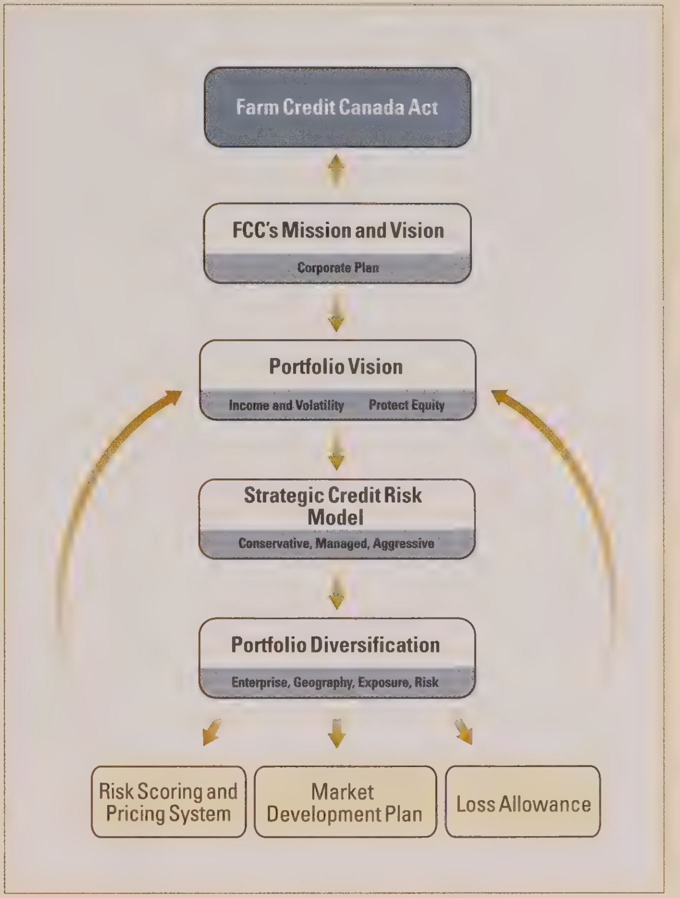
The **Audit Committee** of the FCC Board of Directors is responsible for ensuring that management has identified key risks and has put in place reasonable policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining the levels and trends in major risk areas and corresponding risk management measures implemented, to provide assurance that FCC is effectively managing risk.

The **Executive Committee** (EC) sets the tone for ERM at FCC and is accountable for championing a culture that supports effective risk management, strategic decision-making, including risk/reward decisions, compensation alignment and prioritization. Additionally, EC reports to the Board on risks with potentially high impact to the corporation as they arise.

The **Senior Management Team** (SMT) participates in enterprise-wide discussion of risks and ranks them according to the extent of their impact and likelihood. SMT is accountable to develop risk management action plans and to report against these risks.

Strategy Execution Team (SET) is responsible for the ongoing monitoring and execution of the corporate workplan, to enable the achievement of FCC's strategic objectives. SET prioritizes and sequences corporate projects to ensure alignment with the FCC strategy and optimum use of our financial and human resources.

The **Asset/Liability Committee** is responsible for the establishment and maintenance of market risk policies and procedures, and ensuring sufficient integration with corporate strategic and financial planning.



The **Credit Policy and Models Committee** oversees the development of credit policies and the enhancement of credit risk models and scorecards to support and maintain FCC's desired credit culture. The committee works to ensure that these portfolio risk tools reflect FCC's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.

The **Credit Committee** reviews and makes lending decisions on loan applications from customers with total exposure in excess of $10 million for established operations and in excess of $5 million for start-up operations.

The **Venture Capital Investment Committee** adjudicates all venture capital investment recommendations and reviews the performance of the existing investment portfolio.

Internal Audit provides independent assurance to FCC management and the Audit Committee on the effectiveness of FCC's risk management, internal control and governance processes.

The **Enterprise Risk Management** department offers a comprehensive view of risk across the organization and works with the Strategy and Corporate Project Management Office to ensure that ERM is incorporated in the strategic planning process. The ERM function facilitates the assessment and ranking of significant risks identified by FCC management and supports business units in developing actions to address ongoing business risks, while enhancing FCC's ability to capitalize on developing opportunities. ERM reports semi-annually to the Audit Committee with respect to the highest-ranked risks.

FCC's ERM Framework sets out the major categories of risk to which we are exposed: credit risk, market risk, liquidity risk and operational risk.

Credit risk management

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to FCC. Credit risk is the most significant area of risk for FCC.

In order to fulfil our mission to enhance rural Canada by providing business and financial solutions to farm families and agribusiness, and to meet our governing objective of remaining financially self-sustaining in order to grow our support for agriculture and customers, a balance must be maintained between net income (profitability) and risk (volatility of net income). This relationship is explained in our portfolio vision statement:

> FCC'S VISION FOR THE LOAN PORTFOLIO IS HAVING IT PERFORM AT A LEVEL SUFFICIENT TO CREATE THE DESIRED LEVEL OF NET INCOME WITHIN AN ACCEPTABLE RANGE OF VOLATILITY. THE DESIRED NET INCOME WILL SUPPORT GROWTH OF THE PORTFOLIO TO ACHIEVE FCC'S MISSION IN A GROWING AGRICULTURE ECONOMY.

The Portfolio Management division assesses credit risk at the aggregate level, providing risk assessment tools and models to quantify credit risk and default loss allowances. They also monitor the agriculture and agri-food operating environments to ensure FCC lending policies, activities and pricing are appropriate and relevant.

The following tools or systems are used to manage credit risk of the portfolio. Annually, numeric targets associated with many of these tools are set to assist in achieving the portfolio vision statement. Significant research, modelling, validation and interpretation support the targets for each tool:

Strategic Credit Risk Model (SCRM) measures the risk in the portfolio first by totalling individual loans or transaction risk, then overlaying risks for concentrations of loans by lines of business, enterprises, geographical areas and customer exposure. There are three possible score ranges, each corresponding to a credit risk strategy:

- Conservative (maximizes portfolio quality)
- Managed (balances portfolio quality and growth)
- Aggressive (maximizes growth)

FCC targets the managed range, and in 2005-06 the SCRM indicated a managed level of overall strategic credit risk.

These results show consistent credit risk exposure over the past five years, indicating that credit risk has been managed successfully.

Portfolio Diversification Plan is a process that determines the five-year optimal portfolio composition through a balance of profitability and risk. It considers projected growth in Canadian agriculture debt, risk-adjusted and cost-adjusted returns by sector and FCC growth trends. The Portfolio Diversification Plan identifies target ranges and adjustment options for each of the following:

- diversification across sectors, geographical areas and business lines;
- market share by sector and geographical area;
- large customer exposure limits and approval authorities for large exposure customers; and
- maximum target market share for minor, niche market sectors.

FCC is currently within the target ranges, and is planning for growth in each sector.

Risk Scoring and Pricing System is a behavioural scorecard used as FCC's risk rating system. It is also used to suggest interest rates for individual loans and ensures the cost of funds, risk, operating cost and planned profit are recovered.

The **Market Development Plan** operationalizes the Portfolio Diversification Plan, presenting the rationale, objective and strategy for each of FCC's business lines. The strategy component presents the relative priority of market development efforts in retention, expansion or acquisition for each business line in the upcoming year.

Loan Loss Allowance models the losses due to credit risk within the loan portfolio. The Specific Allowance Loan Loss model identifies non-performing loans. The General Allowance Loan Loss model identifies loans that are still performing but have characteristics that indicate deterioration in credit-worthiness. In addition, the model considers recent events and changes in economic conditions that may have created deterioration in credit quality for many loans, but have not yet exhibited deterioration in credit quality. For both of these groups of loans, the models consider security position to estimate the appropriate amount of loss allowance. Recording such losses protects FCC's equity and reduces the stated loans receivable on FCC's balance sheet.

The Credit Policy department is responsible for the management of FCC credit policies, and makes recommendations to the Credit Policy and Models Committee to ensure an appropriate balance between risk mitigation and effective procedures. Credit Policy reviews, enhances and clarifies credit policies, communicates policy changes to staff and provides policy training and ongoing interpretation of policy in relation to general and specific lending situations.

Operations staff is responsible for managing credit risk on the loans in their portfolio. Lending authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. Operations monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.

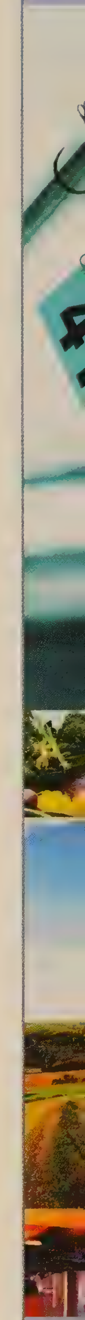
The Credit Risk division manages credit risk for larger loans as well as loans with a higher risk rating. Credit Risk staff are responsible for delegation of authorities, credit training and coaching, and credit authorization including Credit Committee recommendations. Valuation staff research land sales, maintain benchmark data on land values, and appraise the value of FCC security with particular emphasis on specialized enterprises and agribusinesses. Special Credit staff manage and resolve higher risk accounts experiencing challenges.

Market risk management

Market risk is the potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rates and credit risk associated with derivative counterparties.

FCC has market risk policies and limits to ensure exposures to interest rate, foreign exchange and derivative counterparty credit risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by the Asset/Liability Committee (ALCO) and are approved by the Board of Directors. Throughout the fiscal year, FCC was within all market risk policy limits. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and to the Board of Directors on its activities and asset/liability positions.

The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate volatility, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Interest rate risk is effectively managed through hedging and pricing strategies. FCC's policy is to eliminate foreign exchange risk. To accomplish this, all foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset.



Interest rate risk

Interest rate risk is the potential for adverse impacts on FCC's earnings and economic value due to changes in interest rates. FCC is exposed to interest rate risk primarily from interest rate mismatches and embedded options. Interest rate mismatches between assets, liabilities and off-balance sheet instruments occur because of different maturity, renewal and/or re-pricing dates. Embedded options exist on loans that have principal deferral options, prepayment features and interest rate guarantees on mortgage commitments.

Exposure to interest rate risk is monitored primarily using an asset/liability model. Various scenarios are produced on a monthly basis to analyze the sensitivity of income and market values to changes in interest rates and balance sheet assumptions. The asset/liability model is back-tested to ensure that the logic and the assumptions used in the model are reasonable when compared to actual results.

The asset/liability model simulates changes in net interest income and the market value of portfolio equity for parallel and non-parallel changes in the Government of Canada yield curve. Given FCC's financial position at March 31, 2006, an immediate and sustained two per cent change in the yield curve (across all maturities) would affect net interest income and the market value of portfolio equity as follows:

	2% increase	**2% decrease**
	($ millions)	
Net interest income variability	+8.2	-9.4
Market value of portfolio equity variability	-72.3	+68.4

Derivatives

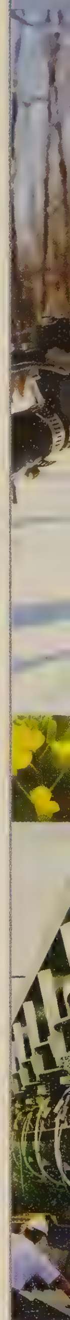
FCC uses derivatives to hedge interest rate and foreign currency risk. No derivatives are entered into for speculative purposes. Derivative instruments may be used to hedge exposures to foreign exchange risk, basis risk, the options embedded in FCC's loan products, and the mismatches in the maturities and interest rate characteristics of FCC's assets and liabilities. In addition, in the normal course of financing the operations of FCC, derivative instruments may be used in combination with a debt instrument to synthetically create floating or fixed rate debt. Such transactions alter the cash flows and risk profile of the assets and liabilities to ensure interest rate risk and foreign exchange risk are managed within Board-approved limits and Department of Finance borrowing limits.

Credit risk arises from the potential for a counterparty of a derivative contract to default on its contractual obligation to FCC. FCC is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. To mitigate this risk, FCC transacts derivatives only with counterparties of high credit quality, as determined by the published ratings of external credit rating agencies. Furthermore, standard credit mitigation, via netting arrangements provided in the master ISDA (International Swap and Derivatives Association) documentation, provide for the simultaneous close-out and netting of positions with a counterparty in the event of a default. Credit Support Annex documentation is also in place with most of FCC's counterparties. These agreements are addendums to existing ISDA documentation and provide FCC with collateral in the event that the counterparty credit exposure exceeds an agreed threshold.

Liquidity risk management

Liquidity risk is the potential for financial loss if FCC cannot meet a demand for cash or fund its obligations at a reasonable cost as they come due.

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.



FCC maintains liquidity through:

- a liquid investment portfolio – Cash and marketable securities equal to $668.7 million were on hand at March 31, 2006 (March 31, 2005 – $586.8 million). ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities and limits the size and composition of the total investment portfolio;
- access to commercial paper markets – FCC's domestic and Euro commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements; and
- access to a $10 million bank operating line of credit and a $50 million revolving credit facility.

Operational risk management

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events that are not related to credit, market or liquidity risks.

Managers are responsible for daily management of operational risk, while Executive Committee and the Senior Management Team are responsible for managing enterprise-wide operational risk. All FCC staff are responsible to comply with corporate policies and procedures.

The Strategy Execution Team (SET) monitors the execution of the corporate work plan and prioritizes and sequences corporate projects to ensure alignment with the FCC strategy and optimum use of FCC's financial and human resources.

The FCC General Counsel and Chief Privacy Officer is responsible for managing risks associated with changes in legislation, litigation involving FCC, and privacy of customer and employee information.

Administration is responsible for managing risks associated with physical facilities, employee safety and security, insurance policies, emergency preparedness and many aspects of business continuity planning.

The Information Technology division is responsible for managing risks related to computer systems, data integrity, disaster recovery and data services.

The Enterprise Risk Management department assists functional and senior managers in identifying operational risks, facilitates an annual evaluation of the likelihood and potential impact of these risks, co-ordinates the business continuity management program and prepares semi-annual progress reports for FCC's senior management and the Audit Committee.

Future accounting changes

Financial Instruments

The Canadian Institute of Chartered Accountants has issued three new accounting standards which will become effective for the corporation beginning April 1, 2007:

Section 1530 – Comprehensive Income
Section 3855 – Financial Instruments, recognition and measurement
Section 3865 – Hedges

These new guidelines are being implemented for the purpose of establishing a standard framework for the recognition and measurement of financial assets, financial liabilities, and derivative financial instruments. We are currently evaluating the impact of adopting these standards and preparing for implementation. Further details on these guidelines can be found in note 2 to the corporation's March 31, 2006 financial statements.

Farm Credit Canada

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses, the provision for employee future benefits, and the fair value for financial instruments, that are necessarily based on management's best estimates and judgment.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the corporation and for issuing her report thereon.

John J. Ryan
President and
Chief Executive Officer

Moyez Somani, FCMA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 12, 2006

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food

I have audited the balance sheet of Farm Credit Canada as at March 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act* and the bylaws of the corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 12, 2006

BALANCE SHEET

As at March 31 ($ thousands)

		2006		2005
Assets				
Cash and cash equivalents	$	297,870	$	318,062
Temporary investments (Note 3)		370,830		268,743
Accounts receivable		25,905		43,231
Derivative-related assets (Note 12)		13,339		23,866
		707,944		653,902
Loans receivable – net (Notes 4 and 5)		11,795,919		10,687,450
Venture capital investments (Note 6)		34,202		31,128
		11,830,121		10,718,578
Real estate acquired in settlement of loans		1,159		521
Equipment and leasehold improvements (Note 7)		28,986		28,343
Other assets		8,139		3,649
		38,284		32,513
Total Assets	$	12,576,349	$	11,404,993
Liabilities				
Accounts payable and accrued liabilities	$	33,796	$	29,756
Accrued interest on borrowings		88,267		77,167
		122,063		106,923
Borrowings (Note 8)				
Short-term debt		4,406,728		2,729,907
Long-term debt		6,637,962		7,373,823
		11,044,690		10,103,730
Other liabilities (Note 9)		29,443		21,458
Derivative-related long-term liabilities (Note 12)		116,290		88,333
		145,733		109,791
		11,312,486		10,320,444
Shareholder's Equity				
Capital (Note 1)		547,725		532,725
Retained earnings		716,138		551,824
		1,263,863		1,084,549
Total Liabilities and Shareholder's Equity	$	12,576,349	$	11,404,993

Guarantees, commitments and contingent liabilities (Note 14).
The accompanying notes are an integral part of the financial statements.

Approved:

Rosemary Davis,
Chair, Board of Directors

Marie-Andrée Mallette,
Chair, Audit Committee

Statement of Operations and Retained Earnings

For the year ended March 31 ($ thousands)

	2006	2005
Interest Income		
Loans receivable	$ 703,218	$ 613,131
Investments	21,889	14,713
	725,107	627,844
Interest expense		
Short-term debt	112,604	54,131
Long-term debt	224,078	221,816
Total interest expense	336,682	275,947
Net Interest Income	388,425	351,897
Provision for credit losses (Note 5)	62,399	95,150
Net Interest Income after Provision for Credit Losses	326,026	256,747
Other income	6,599	4,962
Income before administration expenses	332,625	261,709
Administration expenses (Note 10)	163,001	143,705
Net Income	169,624	118,004
Retained earnings, beginning of year	551,824	437,499
Dividends paid (Note 1)	(5,310)	(3,679)
Retained Earnings, end of year	$ 716,138	$ 551,824

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

For the year ended March 31 (thousands of dollars)

	2006	2005
Operating Activities		
Net income	$ 169,624	$ 118,004
Items not involving cash and cash equivalents:		
Provision for credit losses	62,399	95,150
Gain on sale of venture capital investments	(2,018)	–
Amortization of bond premiums/discounts	14,579	18,933
Change in accrued interest receivable	(12,534)	(522)
Change in accrued interest payable	11,100	8,071
Change in derivative-related assets	10,527	(5,976)
Change in derivative-related liabilities	27,957	84,398
Amortization of equipment and leasehold improvements	10,522	9,337
Change in foreign exchange on long term debt	(30,379)	(82,475)
Other	(2,410)	9,166
Cash provided by operating activities	259,367	254,086
Investing Activities		
Loans receivable disbursed	(3,800,565)	(3,508,900)
Loans receivable repaid	2,644,401	2,361,752
Change in temporary investments	(102,087)	60,080
Venture capital investments purchased	(12,150)	(17,300)
Proceeds on disposal of venture capital investments	11,195	–
Purchase of equipment and leasehold improvements	(11,165)	(7,797)
Other	(638)	3,190
Cash used in investing activities	(1,271,009)	(1,108,975)
Financing Activities		
Long-term debt from capital markets	2,544,983	2,765,523
Long-term debt repaid to capital markets	(3,265,044)	(2,392,616)
Dividend paid	(5,310)	(3,679)
Capital contribution	40,000	–
Change in short-term debt	1,676,821	654,314
Cash provided by financing activities	991,450	1,023,542
Change in cash and cash equivalents	(20,192)	168,653
Cash and cash equivalents, beginning of year	318,062	149,409
Cash and cash equivalents, end of year	$ 297,870	$ 318,062
Supplemental Information		
Cash interest paid during the year	$ 325,583	$ 267,876

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the *Income Tax Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the corporation with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the *Farm Credit Corporation Act* received Royal Assent, which updated the *Farm Credit Corporation Act*. This new act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, the corporation may deliver specific programs for the Government of Canada on a cost-recovery basis.

Capital

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2006, capital payments received or receivable from the Government of Canada amounted to $1,208.3 million (2005 – $1,193.3 million). The statutory limit for that same period was $1,250.0 million (2005 – $1,250.0 million).

In 2005, the Government of Canada agreed to provide the corporation with additional capital contributions of $75 million over the next five years. To date, the corporation has received $40 million in additional capital contributions which have been recorded on the balance sheet as at March 31, 2006 (2005 – $25 million). The remaining $35 million in capital contributions are expected to be received by the corporation over the next three years.

Dividend

On December 7, 2005, the corporation's Board of Directors declared a dividend in the amount of $5.3 million, to the corporation's shareholder, the Government of Canada, which was paid March 10, 2006 (2005 – $3.7 million).

Limits on borrowing

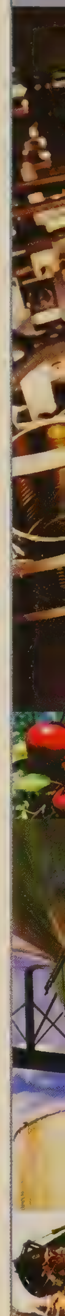
The *Farm Credit Corporation Act* restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times its equity with the prior approval of the Governor-in-Council.

At March 31, 2006, the corporation's total liabilities were 9.0 times the equity of $1,263.8 (2005 – 9.6 times the equity of $1,084.5 million).

2. Significant accounting policies

The corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments.



The significant accounting policies used in the preparation of these financial statements are summarized below in the following pages.

Cash and cash equivalents

Cash and cash equivalents are comprised of bank account balances net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

Temporary investments

Temporary investments are defined as investments with maturity dates between 91 and 365 days from the date of acquisition. They are acquired primarily for liquidity purposes and are intended to be held to maturity. Temporary investments are carried at cost; however, where there has been a significant and other than temporary decline in market value, temporary investments are written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value are included in investment income.

Loans receivable

Loans receivable are stated net of the allowance for credit losses and deferred loan fees.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees

Fees relating to loan origination, including commitment, restructuring and renegotiation fees, are considered an integral part of the return earned on the loans and are deferred as unearned income and amortized to interest income over the average loan term. In addition, certain incremental direct costs for originating the loans are reclassified from administration expenses and netted against the related fees. Loan prepayment fees are recognized in interest income when received.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the probable credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable credit losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government support programs, commodity prices and climatic conditions.

In determining the allowance for credit losses, management segregates probable credit losses into two components: specific and general.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of the recorded investment or the estimated realizable amount of the underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allowance represents an estimate of probable credit losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the criteria that would require a specific allowance to be established. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to identify probable credit losses on a loan-by-loan basis. The amount of the allowance is calculated based on the application of expected loan default rates to the estimated loss amounts for the loans identified. These factors are based on the corporation's historic loan loss experience and are adjusted to reflect current conditions.

The general allowance also represents management's best estimate of the probable unidentified credit losses in the portfolio. This assessment of probable unidentified credit losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends, to allow for probable credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks and does not represent future credit losses or serve as a substitute for other allowances.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when, in management's opinion, there is no longer any reasonable doubt regarding the collectability of principal and interest, and payments are not 90 days past due.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Real estate acquired in settlement of loans

Property acquired from customers to satisfy loan commitments is classified as held for sale and recorded at fair value, less cost to sell. Fair value less cost to sell is the amount that could be realized in an arm's length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Net operating costs incurred on real property held for sale are included as a component of other income. Recoveries arising from the disposal of real property held for sale are recognized when title to the property passes to the purchaser. The carrying value of real property held for sale is also adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. These recoveries and adjustments are included as a component of other income.

Venture capital investments

Venture capital investments where the corporation does not have significant influence are recorded at cost. Interest on debt and dividends on preferred shares are accrued when receivable. Dividends on common shares are included in income when declared. Investments over which the corporation has significant influence are recorded using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in income for the period. Dividends received or receivable reduce the carrying value of the investment.

Gains or losses on disposal are recognized in income when realized. Where there has been a significant and other than temporary decline in value, the investment is written down to recognize the loss.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 and 5 years
Leasehold improvements	Straight-line	Lease term

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses are included in net income for the year as a component of interest income or interest expense.

Long-term debt

The difference between the ultimate amounts payable at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues, are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Derivative financial instruments

Market risk is the risk of loss due to an exposure to changes in foreign exchange rates or interest rates. Derivative financial instruments, which are used to manage this risk, create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. The corporation manages its exposure to market risk using limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

The corporation formally assesses and documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, to ensure the relationships qualify for hedge accounting. This process includes linking all derivatives to specific assets, liabilities or cash flows. The corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives that qualify for hedge accounting are accounted for under the accrual method rather than at fair value. Under the accrual method, gains and losses on interest rate or equity-linked swap contracts are recognized when amounts become receivable or payable under the contract. Gains and losses on foreign currency exchange contracts are recognized to the extent required to offset the gain or loss arising on the translation of the foreign currency denominated monetary asset or liability. All gains and losses on derivatives are recognized in the same period and in the same income statement category to which the underlying hedged item relates. Amounts receivable or payable under interest rate swap or equity-linked swap contracts and unrealized gains and losses on foreign currency exchange contracts are included as a component of the derivative-related assets and liabilities, respectively.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or if the derivative is terminated or sold. If hedge accounting is terminated, the difference between the fair value and the accrued value of the derivative upon termination is deferred as a component of the derivative-related assets or liabilities and recognized into income or expense on the same basis as gains, losses, revenues and expenses of the previously hedged item are recognized in income or expense.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the underlying instrument as an adjustment to interest expense. Unamortized balances of premiums received or paid are included as a component of the derivative-related assets and liabilities, respectively.

Employee future benefits

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

On termination of employment, employees are entitled to non-pension post-retirement benefits provided for under their terms of employment. The corporation also provides health care benefits to employees on long-term disability.

The accrued benefit obligation for pension and non-pension post-retirement benefits is actuarially determined using the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for active employees covered by the defined benefit pension plans is 10 years (2005 – 15 years). The average remaining service period to expected retirement age is 16 years (2005 – 13 years) for active employees expected to receive benefits under the post-retirement non-pension benefit plan and 11 years (2005 – 7 years) for active employees covered by the post-employment benefit plan.

Past service costs, arising from plan amendments, are amortized over the average remaining service period of active employees when the amendment is recognized.

Consolidation of variable interest entities

Effective April 1, 2005, the corporation prospectively adopted a new accounting guideline issued by the Canadian Institute of Chartered Accountants (CICA) called Accounting Guideline 15 – Consolidation of Variable Interest Entities (VIEs), which requires consolidation of VIEs that are subject to control on a basis other than ownership of voting interests. The guideline also requires disclosure for VIEs that are not consolidated but in which the entity has a significant variable interest.

An entity is a VIE when, by design, one or both of the following conditions exist: (a) the equity invested is considered insufficient to finance the entities' activities without additional subordinated financial support from others; or (b) where, as a group, the holders of the equity investment at risk lack the characteristics of a controlling financial interest. The VIE guideline also exempts certain entities from its scope. The new rules require the corporation to consolidate any VIE where the corporation is the primary beneficiary. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses, expected residual returns, or both.

The corporation has assessed the impact of the new standard, and in particular, whether any of its venture capital investments may be considered a VIE, and if so, whether the corporation may be required to consolidate or disclose the VIE in its financial statements. The corporation has determined that it does not have any significant relationships with VIEs which would require it to consolidate or disclose the VIE in its financial statements as at March 31, 2006.

Future changes in accounting policies

Financial instruments

In January 2005, the CICA issued three new accounting standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income. The new standards are to be applied prospectively and are effective for the corporation's fiscal year beginning on April 1, 2007.

The new standards will require the corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Held-to-maturity will be restricted to financial assets with a fixed term to maturity that the corporation intends and is able to hold to maturity. Financial assets held-to-maturity and loans and receivables will be accounted for at amortized cost. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in shareholder's equity called Other Comprehensive Income (OCI).

Financial liabilities will be classified as other or held-for-trading. Financial liabilities held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial liabilities classified as other will be accounted for at amortized cost.

Derivative financial instruments will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivative's fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in OCI. These will subsequently be reclassified to net income in the periods net income is affected by the variability in the cash flows of the hedged item.

The corporation is currently assessing the impact of the new standards and preparing for implementation.

3. Temporary investments

($ thousands except %)	2006	2005
Issued or guaranteed by Canada	$ 64,745	$ 23,926
Yield	3.52%	2.46%
Other institutions	306,085	244,817
Yield	3.57%	2.60%
	$ 370,830	$ 268,743

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1M or higher by Dominion Bond Rating Service (2005 – R-1M or higher). As at March 31, 2006, the largest total investment in any one institution was $65.0 million (2005 – $60.0 million).

4. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2006. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

	2006				2005
($ thousands except %)	Under 1 year	1 to 5 years	Over 5 years	Total	Total
Floating	$ 464,866	$ 6,415,350	$ 603,726	$ 7,483,942	$ 6,953,857
Yield	6.36%	6.35%	6.38%	6.36%	5.11%
Fixed	733,189	3,160,256	772,270	4,665,715	4,030,039
Yield	7.06%	6.41%	6.98%	6.61%	6.95%
Performing loans	$ 1,198,055	$ 9,575,606	$ 1,375,996	12,149,657	10,983,896
Impaired loans				167,559	175,220
Deferred loan fees				(6,997)	(9,166)
Loans receivable – gross				12,310,219	11,149,950
Less: allowance for credit losses				(514,300)	(462,500)
Loans receivable – net				$ 11,795,919	$ 10,687,450

Management estimates that annually, over the next three years, approximately 7.4% (2005 – approximately 7.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2006, $54.4 million (2005 – $76.5 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully hedged at time of issuance.

Concentration of credit risk

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. To manage this risk, the corporation maintains a portfolio vision defining an acceptable portfolio composition considering risk by business line, enterprise and geographic area. The portfolio vision is approved by the Board of Directors and at March 31, 2006 all concentrations are consistent with the approved vision. The concentrations of performing loans and impaired loans by business line, enterprise and geographic area are displayed in the following tables:

Performing Loans

Enterprise distribution

($ thousands)	AgProduction	AgValue	Alliances	2006	2005
Cash Crops	$ 3,853,377	$ 55,754	$ 97,839	$ 4,006,970	$ 3,663,209
Dairy	2,840,263	14,927	17,053	2,872,243	2,579,947
Beef	878,303	3,899	145,542	1,027,744	955,506
Value-added	88,289	1,005,775	3,198	1,097,262	1,011,292
Hogs	1,022,654	15,888	24,499	1,063,041	1,018,630
Poultry	900,237	28,984	6,444	935,665	838,103
Other	1,118,493	20,375	7,864	1,146,732	917,209
Performing loans	$ 10,701,616	$ 1,145,602	$ 302,439	$ 12,149,657	$ 10,983,896

Geographic distribution

($ thousands)	AgProduction	AgValue	Alliances	2006	2005
Western	$ 2,645,542	$ 245,338	$ 92,385	$ 2,983,265	$ 2,527,636
Prairie	2,718,600	180,106	113,247	3,011,953	2,785,536
Ontario	3,764,836	273,653	83,405	4,121,894	3,724,293
Quebec	1,011,962	296,246	11,787	1,319,995	1,281,576
Atlantic	560,676	150,259	1,615	712,550	664,855
Performing loans	$ 10,701,616	$ 1,145,602	$ 302,439	$ 12,149,657	$ 10,983,896

Impaired Loans

Enterprise distribution

($ thousands)	AgProduction	AgValue	Alliances	2006	2005
Cash Crops	$ 61,127	$ 680	$ 168	$ 61,975	$ 58,233
Dairy	3,426	–	–	3,426	3,049
Beef	19,169	–	1,320	20,489	29,944
Value-added	6,499	38,080	–	44,579	41,458
Hogs	14,086	–	21	14,107	17,893
Poultry	2,602	–	–	2,602	1,597
Other	17,031	3,336	14	20,381	23,046
Impaired loans	123,940	42,096	1,523	167,559	175,220
Less specific allowance (Note 5)	31,930	10,736	1,028	43,694	55,795
Net impaired loans	$ 92,010	$ 31,360	$ 495	$ 123,865	$ 119,425

Geographic distribution

($ thousands)	AgProduction	AgValue	Alliances	2006	2005
Western	$ 21,756	$ 6,072	$ 72	$ 27,900	$ 39,852
Prairie	37,411	11,148	102	48,661	49,281
Ontario	28,992	10,267	881	40,140	41,564
Quebec	21,915	7,094	59	29,068	27,257
Atlantic	13,866	7,515	409	21,790	17,266
Impaired loans	123,940	42,096	1,523	167,559	175,220
Less specific allowance (Note 5)	31,930	10,736	1,028	43,694	55,795
Net impaired loans	$ 92,010	$ 31,360	$ 495	$ 123,865	$ 119,425

5. Allowance for credit losses

($ thousands)		2006		2005
Balance, beginning of year	$	462,500	$	405,339
Write-offs, net of recoveries (a)		(10,599)		(37,989)
Provision for credit losses		62,399		95,150
Balance, end of year	$	514,300	$	462,500
Specific allowance	$	43,694	$	55,795
General allowance		470,606		406,705
Balance, end of year	$	514,300	$	462,500

(a) The total amount of restructured loans that were written off (recovered) during the year was $(373) thousand (2005 – $2,032 thousand).

6. Venture capital investments

The corporation's portfolio of venture capital investments is focused on providing financing to small and medium sized companies in the agriculture industry. As at March 31, 2006, the corporation does not have significant influence in the companies. All investments are accounted for at cost. The concentrations of venture capital investments are listed below.

($ thousands)		2006		2005
Food processing and manufacturing	$	14,450	$	5,800
Bio-based fuels and chemicals		8,000		7,000
Agriculture biotechnology		5,500		9,500
Commercial scale primary producers		3,000		4,500
Agriculture equipment manufacturing		2,252		2,328
Forestry		1,000		–
Other agriculture		–		2,000
	$	34,202	$	31,128

Investments are intended to be held for three to seven years through a variety of instruments. Carrying value by type of investment is as follows:

($ thousands)		2006		2005
Common shares	$	11,250	$	8,000
Preferred shares		–		3,500
Debt		22,952		19,628
	$	34,202	$	31,128

The total amount of fees, interest and dividends recognized in income for venture capital investments during the year was $4.1 million (2005 – $2.6 million). Venture capital investments with a carrying value of $9.2 million (2005 – nil) were sold for proceeds of $11.2 million (2005 – nil) creating a total gain of $2 million (2005 – nil). There were no write-downs in the carrying value of the corporation's common share, preferred share, or debt investments (2005 – nil).

The corporation has loans receivable and guarantees of loans receivable from venture capital investees in the amount of $40.7 million (2005 – $24.6 million) that are in addition to the above investments.

7. Equipment and leasehold improvements

($ thousands)	Cost	2006 Accumulated amortization	Net book value	2005 Net book value
Office equipment and furniture	$ 14,030	$ 8,647	$ 5,383	$ 5,556
Computer equipment and software	44,773	28,685	16,088	15,286
Leasehold improvements	17,006	9,491	7,515	7,501
	$ 75,809	$ 46,823	$ 28,986	$ 28,343

Amortization of equipment and leasehold improvements of $10.5 million (2005 – $9.3 million) is included in administration expenses.

8. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Short-term debt

Short-term debt consists of promissory notes payable within one year totalling $4,406.7 million (2005 – $2,729.9 million). The effective interest rate on these notes ranges from 2.76% to 4.45% (2005 – 1.96% to 2.84%) with an average yield to maturity of 3.72% (2005 – 2.49%) and an average coupon rate of 3.63% (2005 – 2.49%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 10, 2005, the corporation renewed a revolving credit facility providing access to funds in the amount of $50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2006, there were no draws on this facility.

The corporation also has a demand operating line of credit which provides overdraft protection in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2006, there was no outstanding balance (2005 – $3.8 million).

Long-term debt

($ thousands)	2006	2005
Debt from capital markets, secured by notes payable in:		
Canadian dollars	$ 6,054,756	$ 6,475,797
United States dollars ($224.0 million)	261,766	289,286
Japanese yen (¥32.4 billion)	321,440	593,040
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:		
The Euro Top 100 Index	–	15,700
	$ 6,637,962	$ 7,373,823

Debt with index-linked interest payments does not provide periodic interest payments but, upon maturity, provides the purchaser with a single payment based on the change in the underlying equity or bond index. The corporation has entered into swap agreements that offset all index-linked interest payments in exchange for periodic payments calculated at an agreed-upon interest rate.

Debt payments denominated in foreign currency have been fully swapped into Canadian dollars.

Long-term debt maturities based on final maturity date are as follows:

($ thousands)	2006	2005
Amounts due:		
Within 1 year	$ 1,277,180	$ 1,693,235
From 1 – 2 years	1,102,981	1,124,471
From 2 – 3 years	569,442	883,542
From 3 – 4 years	219,977	535,819
From 4 – 5 years	565,833	262,702
Over 5 years	2,902,549	2,874,054
	$ 6,637,962	$ 7,373,823

Structured Notes

FCC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative financial instruments.

Structured notes outstanding, included in long-term debt, are as follows:

($ thousands)	2006	2005
Extendible notes	$ 1,345,465	$ 1,624,770
Targeted redemption notes	520,950	160,750
Floating rate notes	503,536	647,744
Callable notes	159,830	304,375
Range notes	111,500	97,500
Amortizing notes	89,665	113,418
Index linked notes	69,246	115,426
Dual currency notes	43,638	106,415
Fixed-rate notes	22,000	150,000
Other	16,000	16,000
	$ 2,881,830	$ 3,336,398

The redemption of these debt instruments is controllable by the corporation. At the inception of these debt instruments, derivative swap agreements are entered into concurrently to hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the structured note if the counterparty exercises its right to terminate the related derivative swap agreement. These contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has in substance created floating rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed rate interest and pays interest at a floating rate, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in Note 12.

9. Other liabilities

($ thousands)		2006		2005
Accrued benefit liability – other benefits (Note 11)	$	24,137	$	20,405
Deferred revenues		610		654
Other		4,696		399
	$	29,443	$	21,458

10. Administration expenses

($ thousands)		2006		2005
Personnel	$	105,585	$	88,463
Facilities and equipment		22,718		19,719
Professional		22,255		18,896
Travel and training		11,756		10,647
Other		687		5,980
	$	163,001	$	143,705

11. Employee future benefits

Description of benefit plans

The corporation has three defined benefit pension plans, a defined contribution pension plan, and a defined benefit plan, that provide other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans are based on years of service, final average salary and are inflation protected.

Other retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans also provide short-term disability income benefits, as well as severance entitlements after employment.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plan, were $15.4 million (2005 – $9.2 million).

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were prepared as at December 31, 2005. The next valuations for funding purposes will be as at December 31, 2006.

($ thousands)	2006 Pension Benefits	2005 Pension Benefits	2006 Other Benefits	2005 Other Benefits
Change in benefit obligation:				
Accrued benefit obligation				
Balance at beginning of year	$ 175,210	$ 143,461	$ 28,080	$ 23,199
Current service cost	7,172	5,697	2,089	1,757
Interest cost	10,715	9,499	1,664	1,562
Employee contributions	2,579	2,387	–	–
Benefits paid	(3,938)	(2,736)	(442)	(645)
Plan amendment	1,217	–	37	–
Actuarial loss (gain)	60,731(a)	16,902	(7,697)	2,207
Benefit obligation at end of year	$ 253,686	$ 175,210	$ 23,731	$ 28,080
Change in fair value of assets:				
Fair value of plan assets				
Balance at beginning of year	$ 183,651	$ 156,587	$ –	$ –
Actual return on plan assets	26,586	20,376	–	–
Employer contributions	11,377	7,037	–	–
Employee contributions	2,579	2,387	–	–
Benefits paid	(3,938)	(2,736)	–	–
Fair value of assets at end of year	$ 220,255	$ 183,651	$ –	$ –
Reconciliation of funded status:				
Fair value of plan assets	$ 220,255	$ 183,651	$ –	$ –
Accrued benefit obligation	253,686	175,210	23,731	28,080
Funded status of plans – (deficit) surplus	(33,431)	8,441	(23,731)	(28,080)
Unamortized past service cost	1,217	–	37	–
Unamortized net actuarial loss (gain)	38,424	(6,337)	(443)	7,675
Employer contributions after December 31	1,822	1,481	–	–
Net prepaid (accrued) benefit expense at end of year	$ 8,032	$ 3,585	$ (24,137)	$ (20,405)
Recorded in:				
Other assets	$ 8,032	$ 3,585	$ –	$ –
Other liabilities	–	–	(24,137)	(20,405)
Net prepaid (accrued) benefit expense at end of year	$ 8,032	$ 3,585	$ (24,137)	$ (20,405)

(a) The actuarial loss includes a loss of $43,275 for the change in discount rate, a loss of $4,913 for the change in mortality table, and a loss of $12,394 due to experience and changes to retirement, termination, and merit and promotion scales.

Defined Benefit Costs

($ thousands)	2006 Pension Benefits	2005 Pension Benefits	2006 Other Benefits	2005 Other Benefits
Elements of defined benefit costs:				
Current service cost	$ 7,172	$ 5,697	$ 2,089	$ 1,757
Interest cost	10,715	9,499	1,664	1,562
Actual return on plan assets	(26,586)	(20,376)	–	–
Actuarial loss (gain)	60,731	16,902	(7,697)	2,207
Past service costs	1,217	–	37	–
Net cost (income) before adjustments	53,249	11,722	(3,907)	5,526
Adjustments to recognize long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plan assets for the year	15,669(a)	10,225(a)	–	–
Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation for year	(60,430)(b)	(16,991)(b)	8,118(c)	(1,873)(c)
Difference between recognized and actual past service cost for year	(1,217)	–	(37)	–
Defined benefit costs recognized	$ 7,271	$ 4,956	$ 4,174	$ 3,653

(a) Expected return on plan assets of $(10,917) (2005 – $(10,151)) less the actual return on plan assets of $(26,586) (2005 – $(20,376)) = $15,669 (2005 – $10,225).

(b) Actuarial loss (gain) recognized for year of $301 (2005 – $(89)) less actual actuarial loss on accrued benefit obligation for year of $60,731 (2005 – $16,902) = $(60,430) (2005 – $(16,991)).

(c) Actuarial loss recognized for year of $421 (2005 – $334) less actual actuarial (gain) loss on accrued benefit obligation for year of $(7,697) (2005 – $2,207) = $8,118 (2005 – $(1,873)).

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

($ thousands)	2006 Pension Benefits	2005 Pension Benefits	2006 Other Benefits	2005 Other Benefits
Accrued benefit obligation	$ 239,551	$ 2,352	$ 23,731	$ 28,080
Fair value of plan assets	205,655	–	–	–
Funded status – plan deficit	$ (33,896)	$ (2,352)	$ (23,731)	$ (28,080)

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2006 Pension Benefits	2005 Pension Benefits	2006 Other Benefits(a)	2005 Other Benefits(a)
Accrued benefit obligation as of December 31:				
Discount rate	5.00%	6.00%	5.00%	6.00/5.25%
Rate of compensation increase	5.50%	3.50%(b)	5.50%	4.00/4.00%(b)
Benefit costs for years ended December 31:				
Discount rate	6.00%	6.50%	6.00/5.25%	6.50/5.25%
Expected long-term rate of return on plan assets	7.50/4.00%(c)	6.00%	–	–
Rate of compensation increase	3.50%(b)	3.50%(b)	4.00/4.00%(b)	4.00/4.00%(b)

(a) Percentages reflect post-retirement benefits/post-employment benefits, respectively.

(b) Plus annual merit promotion increases.

(c) Registered pension plan/supplemental plans, respectively.

Assumed health-care cost trend rates at December 31:

	2006	2005
Hospital:		
Initial rate	10.00%	8.00%
Ultimate rate	5.00%	Nil
Year ultimate rate reached	2016	2012
Prescription drugs:		
Initial rate	10.00%	10.30%
Ultimate rate	5.00%	5.00%
Year ultimate rate reached	2016	2012
Other health care costs:		
Initial rate	10.00%	4.00/3.00%(a)
Ultimate rate	5.00%	4.00/3.00%(a)
Year ultimate rate reached	2016	n/a

(a) Percentages reflect post-retirement benefits/post-employment benefits respectively.

Sensitivity analysis

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects for 2006:

($ thousands)	Increase	Decrease
Total of service and interest cost	$ 761	$ (569)
Accrued benefit obligation	3,476	(2,775)

Plan assets

The percentage of plan assets based on market values at December 31 are:

	2006	2005
Equity securities	63.4%	65.0%
Debt securities	32.5%	34.7%
Other	4.1%	0.3%
	100.0%	100.0%

Defined contribution plan

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. For the year ended March 31, 2006, the expense was $2.6 million (2005 – $1.9 million).

12. Derivative financial instruments

Description of derivatives

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The following are detailed descriptions of some of the more prominent derivative instruments used by the corporation to mitigate risk:

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Equity index-linked swaps are transactions used to eliminate exposure to movements in a bond or equity index on a debt issue undertaken by the corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed-upon bond or equity index and the other a short-term interest rate index. The principal amount may or may not be exchanged at both inception and maturity.

Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Interest rate options are transactions that grant the buyer the right, but not the obligation, to buy or sell a specific amount of currency, commodity or financial instrument at an agreed upon price.

Currency forward contracts are transactions to either buy or sell currencies at specified dates and prices in the future.

Notional amounts

Notional principal amounts outstanding at March 31, 2006, for the various derivative financial instruments are:

Interest rate contracts:

($ thousands)		Remaining term to maturity: Within 1 year	1 to 5 years	Over 5 years	2006	2005
Swap contracts:						
Receive	*Pay*					
Floating	Fixed	$ 110,000	$ 340,000	$ –	$ 450,000	$ 300,000
Fixed	Floating	8,835,587	320,665	616,609	9,772,861	10,809,125
Equity index-linked	Floating	–	–	–	–	15,700
Cross-currency	Floating	695,578	–	–	695,578	948,182
		9,641,165	660,665	616,609	10,918,439	12,073,007
Interest rate option contracts:						
Receive	*Pay*					
CDN Floating	CDN fixed	140,000	–	–	140,000	–
Currency forward contracts:						
Receive	*Pay*					
USD fixed	CDN fixed	–	–	–	–	27,132
Total		$ 9,781,165	$ 660,665	$ 616,609	$ 11,058,439	$ 12,100,139

Counterparty credit risk and fair values

The counterparty credit risk associated with derivatives is the risk of loss due to the failure of a counterparty to discharge its obligations in a derivative financial instrument agreement. The counterparty obligation may arise when currency and interest differentials occur resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments.

The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Credit risk, or counterparty risk, is managed via the corporation's Board approved Counterparty Risk Guidelines, which specifies the maximum exposure that the corporation will accept for each level of credit rating. Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes are in place with primary derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

Counterparty credit risk is represented by replacement cost, which is the cost of replacing all derivative contracts that have a positive fair value. Net fair value represents the total of positive and negative fair values of all derivative financial instruments. The net fair values and replacement costs of the derivative instruments are as follows:

		2006			2005	
($ thousands)	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Interest rate swap contracts	$ 11,041	$ 147,704	$ (136,663)	$ 42,422	$ 23,963	$ 18,459
Cross-currency interest rate swap contracts	306	150,072	(149,766)	2,648	89,512	(86,864)
Equity indexed contracts	–	–	–	–	895	(895)
Currency swap contracts	–	–	–	–	3,982	(3,982)
Purchased option contracts	361	–	361	–	–	–
Fair value	11,708	297,776	(286,068)	45,070	118,352	(73,282)
Less impact of master netting agreements	11,708	11,708	–	36,547	36,547	–
Net fair value	$ –	$ 286,068	$ (286,068)	$ 8,523	$ 81,805	$ (73,282)

The derivative contracts entered into by FCC are over-the-counter instruments. Fair values are determined using present value techniques and quoted market values. Quoted market values are obtained from the counterparty for some derivative instruments. The fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, some of which are about unobservable market parameters. As such, fair values are estimates involving uncertainties, and may be significantly different when compared to another financial institution's value for a similar contract.

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2006 was $3,884.0 million (2005 – $3,226.3 million) and the largest net fair value of contracts with any institution as at March 31, 2006, was $(0.3) million (2005 – $3.8 million). The notional amounts of the financial instruments reported by the corporation are not indicative of either the market or credit risk associated with the contracts. The risk of loss is related solely to the possibility that a counterparty to a transaction does not perform as agreed. The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties. These agreements create the legal right of offset of exposure in the event of default.

Derivative-related amounts – assets and liabilities

Amounts receivable from counterparties under swap contracts included in derivative-related assets at March 31, 2006 were $13.3 million (2005 – $23.9 million). Amounts payable to counterparties under swap contracts included in derivative-related liabilities at March 31, 2006 were $3.9 million (2005 – $3.5 million).

Unrealized gains and losses on foreign currency swaps included in derivative-related liabilities at March 31, 2006 were $112.4 million (2005 – $84.8 million).

13. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date. The fair values are determined using the valuation methods and assumptions described below. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair values of derivative financial instruments are not included in the table below and are presented in Note 12.

	2006		2005	
($ thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	$ 297,870	$ 297,870	$ 318,062	$ 318,062
Temporary investments	370,830	370,830	268,743	268,743
Accounts receivable	25,905	25,905	43,231	43,231
Derivative-related assests	13.339	13,339	23,866	23,866
Loans receivable – net	11,795,919	11,855,237	10,687,450	10,796,693
Venture capital investments	34,202	36,527	31,128	32,028
Liabilities				
Accounts payable and accrued liabilities	$ 33,796	$ 33,796	$ 29,756	$ 29,756
Accrued interest on borrowings	88,267	88,267	77,167	77,167
Derivative-related liabilities	116,290	116,290	88,333	88,333
Short-term debt	4,406,728	4,406,728	2,729,907	2,729,907
Long-term debt	6,637,962	6,631,337	7,373,823	7,402,432

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and cash equivalents, temporary investments, accounts receivable, derivative-related assets, accounts payable and accrued liabilities, accrued interest on borrowings, derivative-related liabilities and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instruments. The following methods of calculation and assumptions are used:

- Venture capital investments in shares that are traded on an exchange are valued based on the closing share price as of the date of these financial statements. The investment in debt is valued at book value, which approximates fair value.
- The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts that may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.

- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

14. Guarantees, commitments and contingent liabilities

Guarantees

In the normal course of its business, the corporation issues guarantees and letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2006 is $2.9 million (2005 – $16.6 million). In the event of a call on these guarantees and letters of credit, the corporation has recourse against its customers for amounts to be paid to the third party. Existing items will expire within two years, usually without being drawn upon. No amount has been included in the balance sheet as at March 31, 2006 or March 31, 2005 for these guarantees and letters of credit.

Long-term commitments

Future minimum payments by fiscal year on technology services, operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

($ thousands)		
Within 1 year	$	6,718
From 1 – 2 years		5,388
From 2 – 3 years		4,613
From 3 – 4 years		3,508
From 4 – 5 years		2,967
Over 5 years		4,127
	$	27,321

Loan commitments

As at March 31, 2006, loans to farmers and agribusiness approved but undisbursed amounted to $791.4 million (2005 – $663.7 million). These loans were approved at an average interest rate of 6.52% (2005 – 5.38%) and do not form part of the loans receivable balance until disbursed. In addition, the corporation approved but did not disburse $12.8 million (2005 – $6.0 million) in venture capital investments. It is expected that the majority of these commitments will be disbursed by May 31, 2006.

Contingent liabilities

The corporation, in the normal course of operations, enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements. The indemnification, in certain circumstances, may require the corporation to compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnification. No amount has been included in the balance sheet as at March 31, 2006 or March 31, 2005 for these indemnifications.

The corporation's contingent liabilities include creditor life and accident insurance policies, which are sold to customers under the Agri-Assurances program. The corporation is exposed to risk to the extent that claims may exceed premiums collected. The program is administered by a major insurance provider and is based on premiums that are actuarially sound. Risk exposure is further mitigated by a claims fluctuation reserve. Historically premiums have significantly exceeded claims.

15. Interest rate risk

The corporation is exposed to interest rate risk as a consequence of the mismatch or gap between the remaining term to maturity or repricing and interest rate sensitivity of its assets and liabilities. The corporation uses derivative financial instruments to manage its interest rate risk. The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, liabilities and equity, grouped by the earlier of contractual repricing or maturity dates and interest rate sensitivity. The corporation's borrowings are also shown net of the derivative financial instruments entered into to manage the corporation's interest rate risk and foreign currency risk related to the structured borrowing. In the normal course of business, loan customers frequently prepay their loans in part or in full prior to the contractual maturity date.

($ thousands except %)	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 275,115	$ –	$ –	$ –	$ 22,755	$ 297,870
Effective yield (1)		3.78%					
Temporary investments	–	308,169	59,244	–	–	3,417	370,830
Effective yield (1)		3.60%	3.35%				
Loans receivable	7,406,094	401,599	858,945	2,992,973	356,991	(220,683)	11,795,919
Effective yield (1)	6.31%	7.11%	6.70%	6.42%	6.84%		
Venture capital	–	–	–	21,952	1,000	11,250	34,202
Effective yield (1)				11.08%	12.00%		
Other assets	–	–	–	–	–	77,528	77,528
Total assets	$ 7,406,094	$ 984,883	$ 918,189	$ 3,014,925	$ 357,991	$ (105,733)	$ 12,576,349
Liabilities							
Borrowings							
Non-structured borrowings	$ –	$ 4,432,382	$ 1,210,210	$ 1,739,291	$ 870,200	$ (89,223)	$ 8,162,860
Effective yield (1)		3.62%	3.79%	4.01%	4.29%		
Structured borrowings	–	2,831,830	50,000	–	–	–	2,881,830
Effective yield (1)		3.59%	3.35%	–	–	–	–
Total borrowings	–	7,264,212	1,260,210	1,739,291	870,200	(89,223)	11,044,690
Pay-side instruments on swap contracts (2)	6,830,000	866,609	–	340,000	–	–	8,036,609
Effective yield (1)	3.77%	3.81%	–	4.14%	–	–	–
Receive-side instruments on swap contracts (2)	–	(7,000,000)	(265,000)	(160,000)	(611,609)	–	(8,036,609)
Effective yield (1)		3.67%	3.99%	3.45%	4.27%		
Accrued interest	–	–	–	–	–	88,267	88,267
Other liabilities	–	–	–	–	–	179,529	179,529
Shareholder's equity	–	–	–	–	–	1,263,863	1,263,863
Total liabilities and equity	$ 6,830,000	$ 1,130,821	$ 995,210	$ 1,919,291	$ 258,591	$ 1,442,436	$ 12,576,349
Total gap 2006	$ 576,094	$ (145,938)	$ (77,021)	$1,095,634	$ 99,400	$ (1,548,169)	$ –
Total cumulative gap 2006	$ 576,094	$ 430,156	$ 353,135	$1,448,769	$ 1,548,169	$ –	$ –
Total gap 2005	$ 65,897	$ (59,517)	$ 69,974	$1,288,602	$ (62,000)	$ (1,302,956)	$ –
Total cumulative gap 2005	$ 65,897	$ 6,380	$ 76,354	$1,364,956	$ 1,302,956	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual repricing or maturity date.

(2) Represents notional principal amounts on overnight index swaps (OIS) and asset/liability management swaps. Excludes structured note swaps.

16. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business. Significant transactions with related parties are disclosed separately in the financial statements and notes thereto.

17. Segmented information

The Corporation is organized and managed as a single business segment being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's revenues are within Canada. No one customer comprises more than 10 percent of the corporation's receivables or interest revenues.

18. Comparative figures

Certain 2005 comparative figures have been reclassified to conform to the current year's presentation.

Balanced Scorecard 2006-11

The Balanced Scorecard summarizes FCC's corporate strategic objectives, measures, targets and initiatives. In the five-year planning period, from 2006 through 2011, emphasis will be placed on cultural transformation, new technology systems and business processes, and enhancing the customer and employee experience.

Strengthen market presence

2006-11 Strategic objectives	Measures	2006-07 Plan targets	2006-07 Initiatives
Financial Income growth	Portfolio growth	4.64%[1]	
	Non-interest revenue	$24.2 million	
	Net interest income (NII) margin	3.04%	
Customer Understands business, financial, and relationship needs Attract customer and business relationships	New customer acquisitions – all channels	Measure performance against targets	Deliver a customer experience that results in loyal customers who recommend FCC Leverage new venture capital locations in order to better serve the agriculture industry and attract additional co-investment
	Venture capital • Interest and fee income • Co-investment ratio • Capital invested	 • $2.8 million • 1.3:1 • $20 million	
	Market share	22.4%	
Internal capability Enhance market awareness and positioning Relationship selling, management of all FCC solutions Portfolio/risk management Consistent brand-marketing of FCC's full capabilities Strategic integrated planning	Time spent with customers and prospects for value-added activities	Using the new Sales Contact tool, benchmark customer, prospect and centres of influence (COI) contact volumes at Area and District levels[2]	Redesign key processes to enable more time with customers Leverage integrated marketing communication strategy to raise visibility and create awareness of FCC's spectrum of offerings and commitment to agriculture

[1] Target was adjusted to reflect portfolio growth of loans receivable and its equivalent is 4.43% in Principle Not Due (PND).

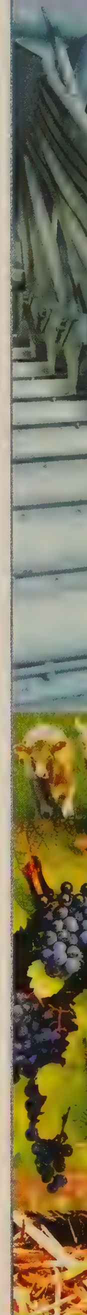
[2] Target was adjusted due to the implementation of the New Sales Contact tool. This tool will track both proactive and reactive sales calls with customers, prospects and COIs. Benchmarks will be established in 2006-07, so that specific targets can be established for future years.

Enhance customer experience

2006-11 Strategic objectives	Measures	2006-07 Plan targets	2006-07 Initiatives
Financial Return on equity and investment	Return on equity	12.28%	
Customer Anticipates and offers tailored, preferred solutions across channels Build and expand relationships across channels	Customer experience index	Q1 Begin monitoring and reporting	Monitor customer experience scoreboards, develop index, communicate results and implement action plans to enhance the customer experience Create tools to support employees' ability to tailor full spectrum of FCC's offerings to customer needs Create/enhance products and services uniquely tailored to satisfying customer needs and exceeding their expectations
	Total value penetration (TVP)	Increase national TVP score; Q1 Set targets based on 2005-06 baseline	
Internal capability Seamless, cross-channel integration to deliver sales, service Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management Monitor and respond to marketplace activity	Channel usage • # of unique website visitors per month • # of website pages visited per year • # of online registered borrowers • # of Customer Service Center (CSC) customer contacts • $ disbursed of CSC Direct Full Service Lending	• 17,000 • 1.8 million • 12,000 • 80,000 • $175 million	Execute on-line and CSC (call center) strategies to provide customers with enhanced service via their channel of choice Benchmark customer value Monitor marketplace activity Implement foundational customer experience standards throughout FCC to ensure delivery of enhanced and consistent customer experience Redesign post-sale customer management processes to enhance the employee and customer experience
	Customer value management	Benchmark	
	Customer channel awareness, preferences and permissions	Benchmark	

Optimize execution and performance

2006-11 Strategic objectives	Measures	2006-07 Plan targets	2006-07 Initiatives
Financial Balance sheet optimization	Efficiency ratio	45%[3]	Amend FCC's environmental policies and processes to address changes to the *Canadian Environmental Assessment Act* Continue implementation of Enterprise Records Management initiative Develop enterprise-wide content management governance committee, approach, and implementation plan for content deployed through employee portal Internal Control Framework – implement framework to maintain and enhance controls through process and system design Implement identity and access management solution to increase efficiency and safeguard customer data BK Program – process redesign, technical infrastructure and application development to support the enhancement of the customer and employee experience Enhance business platforms Cascade strategic objectives from the corporate to the divisional level Enhanced enterprise risk management, risk mitigation planning and status reporting Complete capacity planning installation for project portfolio management projects
	Debt to equity	Under 10:1	
	% of PND with arrears	6%	
	Strategic credit risk management	Managed range between 51 and 70	
Customer Continuously delivers consistent, efficient, quality service Retain customers and grow loyalty efficiently	Process improvements	Corporate business case parameters and approach to be reviewed and finalized	
	Near term improvements	60% of approved near term improvements implemented	
Internal capability Process innovation and continuous improvement Integrated value chain process redesign Agile, integrated IT architecture and solutions delivery IT platform reliability and performance Effective project execution, management and control Strategy execution, enterprise risk management Enterprise services delivery, management	IT architecture capability	86%	
	User acceptance (performance, reliability and usability)	Measure performance against targets	
	Project management maturity	Set baseline	



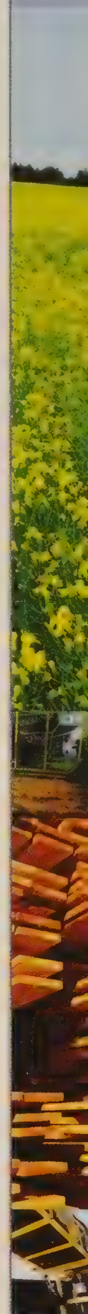
[3]Target adjusted to top of range.

Sustain commitment to agriculture

2006-11 Strategic objectives	Measures	2006-07 Plan targets	2006-07 Initiatives
Financial Investment in agriculture	% of profits invested in communities	1.4%	Educate Canadians regarding agriculture including journalists, school-age children and urban residents Invest in promoting FCC customer products on CanadianFarmersMarket.com
Customer Trusted partner and industry catalyst Build industry, stakeholder awareness, credibility and support	Corporate social responsibility (CSR) scorecard	Measure performance against targets	Grow producer knowledge of management practices via: • AgriSuccess seminars on topics including succession planning, human resource management, farm financial management and price risk management • Advanced Farm Manager: comprehensive business management training for today's farm owners/managers • Subscriptions to AgriSuccess Journal, highlighting agriculture news and management issues Deliver innovative programs for young farmers Continue community investment with an emphasis on farm safety and food issues (World Food Day, First Aid on the Farm, etc.) Continue enhanced support for rural communities with AgriSpirit capital giving program Develop bio-security protocols and enhanced awareness of bio-security management practices
	Corporate reputation index	Conduct new corporate reputation survey	
	Media favourability index	Score of 64	
Internal capability Leverage knowledge management Industry investments and stakeholder relations			Leverage Community of Practice (CoP) knowledge to the benefit of customers by adding CoP knowledge to FCC web site and inviting customers to select FCC events Conduct program to inform elected officials of FCC's role and offerings

People

2006-11 Strategic objectives	Measures	2006-07 Plan targets	2006-07 Initiatives
Strategic enterprise leadership Customer and knowledge culture Define and enhance the employee experience Make it easy for employees to do business Aligned performance management Strategic competencies and capabilities	Engagement score	Minimum threshold 80%	Continue implementation of Cultural Transformation Strategy, through roll out of Holding to Account program to all employees Identify and develop future leaders through the Leadership Development Program Identify key drivers and create action plan to continuously improve employee engagement
	Employee experience	Benchmark	Define the FCC employee experience and attendant development requirements Create a brand ambassador program for employees
	Make it easy for employees to do business	Develop measure and set baseline	Implement the transition plan for the redesign of the performance and competency program (PACE) Develop and implement Employee Orientation Program Deliver Field Development Program and revise as necessary



FCC Board of Directors 2005-06

1. **Russel Marcoux**
2. **Deborah Whale**
3. **Jack Christie**
4. **Rosemary Davis**
5. **John J. Ryan**
6. **Joan Meyer**
7. **Warren Ellis**
8. **Don Haliburton**
9. **Marie-Andrée Mallette**
10. **Réal Tétrault**
11. **Donna Graham**
12. **R. Claude Ménard** (Missing)

Corporate Governance

FCC's corporate governance policies are consistent with current best practices for publicly-traded companies and government policy. During the past fiscal year, FCC has participated in the Review of Governance Framework for Crown Corporation sessions conducted by Treasury Board Secretariat and the Privy Council Office. These sessions focus on the recommendations contained in last year's report to Parliament entitled Meeting the Expectations of Canadians – Review of the Governance Framework for Canada's Crown Corporations.

FCC is governed by the Farm Credit Canada Act and reports to Parliament through the Minister of Agriculture and Agri-Food.

FCC's corporate governance structure is much like publicly traded companies. FCC's Board of Directors is appointed by FCC's shareholder, the Government of Canada. The Board Chair and the President and CEO each are appointed by the Governor-in-Council. The Minister of Agriculture and Agri-Food appoints FCC's directors. There are 12 people on the board of directors; all but the CEO are independent of the business.

Our Board of Directors recognizes that effective corporate governance is an ongoing process and they conduct regular reviews of governance practices, ensuring a high level of accountability. The Directors believe that corporate governance practices vary depending on the needs and characteristics of the corporation.

FCC's Board of Directors is satisfied that its corporate governance structure is effective and appropriate and addresses past recommendations made by the Auditor General of Canada respecting corporate governance for Crown corporations.

Each year, FCC prepares a five-year corporate plan setting out strategies, capital and operating budget needs. At the end of each year, we submit an annual report providing the details of our performance, governance policies and practices.

The Auditor General of Canada reviews our statements every year and conducts a special examination every five years. This is a value-for-money audit and is designed to focus on the financial and management controls, information systems and management practices maintained by FCC. Our most recent special examination was completed November 27, 2002. No significant deficiencies were reported. The corporation will soon begin discussions with the Office of the Auditor General regarding the scope of the next special examination scheduled for 2007.

Board Mandate

The Board oversees FCC's management and performance in the best interests of the corporation, agriculture, agri-business, Canadians and the Government of Canada.

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. The Board has put in place a written charter and a related set of Board governance guidelines. These documents articulate the Board's responsibilities in six major areas:

- Integrity – legal and ethical conduct – setting the tone at the top
- Strategic planning
- Financial reporting and public disclosure
- Risk management and internal controls
- Leadership development and succession planning
- Corporate governance – including director orientation, continuing education and evaluation

Independence

With the exception of the CEO, all Board members are independent of management. The FCC Board Chair and committee chairs are independent. The independent members of the board meet in private, without management present, at every regular meeting.

Board evaluation

Through a structured process of self-evaluation, the Board continually assesses its collective performance and the individual performance of its members, looking for ways to improve. This year, the Board engaged in a week-long session facilitated by an outside consultant. The session focused on helping the Board work together as a high performance team, becoming more efficient and effective. It also helped the Board to better understand the impact FCC's cultural transformation initiative has had, and is having, on the corporation.

Public policy role

As a federal Crown corporation, FCC serves a public policy role. Our mission is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. We fulfil this mission by offering loans and business services to meet the needs of the industry, operating on a financially self-sustaining basis and supporting agriculture through good times and bad.

The Board ensures that public policy is considered in all decisions concerning strategic initiatives, including the portfolio vision, long-term employee incentives and the development of new loans and business services designed to help FCC's customers and to continue to help the industry succeed.

Integrity, code of business conduct and ethics

All Board members are subject to the Board's policy governing loans where a director has a material interest. In addition, the corporation's bylaws prescribe rules for dealing with situations where a director has a conflict of interest. FCC's directors follow the rules provided in the Financial Administration Act (Canada) and the principles set out in the Conflict of Interest and Post-Employment Code for Public Office Holders.

The Board is also subject to the corporation's code of conduct and ethics.

This Code provides whistleblower protection and is consistent with the recently passed Bill C-11, Public Servants Disclosure Protection Act. The corporation has appointed an Integrity Officer who is responsible for providing general advice and ongoing education concerning the Code. The Integrity Officer is also responsible for the investigation of disclosures of possible wrongdoing and protecting from reprisal individuals who make such disclosures.

Strategic planning

The Board leads the corporation in the achievement of long-term goals by overseeing the strategic planning process and providing input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plan has been approved, the Board provides ongoing support to implement and measure the success of those plans and initiatives.

Each year, typically in August, the Board and senior management participate in a joint planning session. At that session the Board receives a report from management on enterprise risk management. All FCC strategies include measurable targets to gauge performance. Following the planning session, management begins drafting the corporation's corporate plan, which is presented for approval in principle in the fall and for final approval in December or January.

The Board discusses particular strategic initiatives throughout the year and is responsible for approving the FCC corporate plan and annual report, and setting and monitoring the annual goals and objectives of the CEO.

Enterprise risk management

The corporation has a well-established enterprise risk management process. It is designed to identify potential events that may affect FCC, to manage risk to be within FCC's risk appetite and to provide reasonable assurance regarding the achievement of FCC's goals and objectives.

Senior management holds primary responsibility for identifying risks and designing and implementing solutions to mitigate them. The Board requires that management assure risks are managed and that appropriate authorities and controls are in place.

Each year, FCC staff follows a prescribed process to identify risks. The risks identified are prioritized by senior management and presented to the Audit Committee, together with risk mitigation plans. Within six months, a progress report is made to the Audit Committee.

Succession planning

This year, the Board was pleased to oversee the reappointment of John Ryan as FCC's President and CEO. His new term is for two years, expiring in November 2007.

The Board, through its Human Resources Committee, annually reviews the corporation's succession plans for key positions and leadership development initiatives. Succession planning ensures there is continuity throughout the organization over the long term. The review identifies employees ready to take over a particular position and others who might be developed for leadership positions over time.

The committee encourages management to identify as many people as possible for advancement to ensure a breadth and depth of experience and expertise. This allows for a progression to the executive level, supplemented by outside experience when necessary.

Integrity of internal controls and management information systems

The Board is committed to financial transparency, and works closely with the Office of the Auditor General to ensure the integrity of FCC internal controls and management information systems.

Each year, the Board reviews lending targets for the next fiscal year, as well as FCC's market development plan and portfolio vision.

FCC Treasury operations are key to the corporation's overall success. The Board reviews the operations of Treasury at each meeting and regularly reviews and updates, as necessary, policies and limits. The Board regularly engages an outside consultant, expert in these areas, to assist its review.

Credit risk is the single largest risk that the corporation faces. The Board oversees the corporation's analysis and reporting of overall credit risk and the performance and health of the FCC loan portfolio.

Finally, the Board oversees the annual audit plan. This includes the audit of the corporation's financial statements by the Auditor General of Canada and the annual audit workplan carried out by the corporation's internal audit division.

Orientation and professional development

Upon appointment to the Board, each member receives a detailed orientation and meets with senior management to learn about the business. Board members also have direct access to the senior management team for ongoing education.

To gain understanding of FCC's business and the current issues facing the corporation, the Board regularly engages in continuing education. This year, the Board participated in a training session related to FCC's pension plans. In addition, each year, as part of the strategic planning session, the Board visits a number of customer operations, creating better understanding of the depth and scope of Canadian agriculture and the issues facing primary producers and agribusiness operators. The Board also takes every opportunity when meeting in Regina for Board meetings to tour areas of corporate office, such as the corporation's Brand production area. It also attends employee area conferences and participates in internally prepared events like an IT fair and presentation from Strategy, Knowledge and Reputation, to gain a better understanding of the day-to-day challenges faced by the corporation and its employees.

Composition of the Board

The Board is composed of 12 members, including the Chair and the President and Chief Executive Officer.

The Governor-in-Council appoints the Chair and the President /Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with Governor-in-Council approval. Directors serve two or three-year terms and may be re-appointed.

Board members are generally successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity; gender, geographic, ethnic, cultural, age and language, in order to reflect the broad spectrum of agriculture in Canada.

Board Remuneration

Directors are paid an annual retainer and per diems. Amounts are set by the Governor-in-Council pursuant to the Financial Administration Act. The rates were last approved on April 5, 2001.

- The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended.
- Committee Chairs receive an annual retainer of $6,400 and a per diem of $375 for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended.
- Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties.

During 2005-06, there were nine Board meetings and 21 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $219,958, compared to $180,419 in 2004-05.

Total Board travel and related expenses was $206,841 compared to $148,454 in 2004-05. The increase in per diems and travel and related expenses is the result of a significant training initiative undertaken by the Board this year with respect to improving their effectiveness as a Board and regarding Corporate Governance generally. Each year, the amounts reported include per diems and travel expenses for Board members who attended FCC's annual area employee conferences, as well as external seminars or continuing education workshops.

New Appointments:

On June 23, 2005, Réal Tétrault of Emerson, Manitoba, was appointed to the FCC Board of Directors to replace Maurice Kraut, whose term expired.

2005-2006 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)[1]	Board meeting attendance[2]	Committee meeting attendance[3]	Board travel and related expenses
Jack Christie	5,400	13,500	18,900	8/9	11/11	16,827
Rosemary Davis	10,800	15,120	25,920	9/9	21/21	17,633
Warren Ellis	6,400	19,125	25,525	9/9	10/10	43,320
Donna Graham	5,400	13,125	18,525	5/9	9/13	14,629
Don Haliburton	5,400	6,750	12,150	8/9	11/14	6,201
Maurice Kraut	1,350	4,875	6,225	1/1	1/1	1,667
Marie-Andrée Mallette	6,400	17,625	24,025	9/9	11/11	32,935
Russel Marcoux	5,400	12,000	17,400	7/9	11/13	16,297
Claude Ménard	5,400	12,375	17,775	6/9	3/3	24,357
Joan Meyer	6,400	14,250	20,650	9/9	9/9	11,110
Réal Tétrault	4,050	12,000	16,050	8/8	6/6	10,086
Deborah Whale	6,400	10,313	16,713	8/9	11/12	11,780
Total	**$ 68,800**	**$ 151,058**	**$ 219,958**			**$ 206,841**

[1] Column A (Board retainer) and column B (Per diems).

[2] There were nine Board meeting (six in person and three by teleconference).

[3] There were seven Audit, six Human Resources, five Corporate Governance and four Nominating Committee meetings.

Audit Committee

Chair: Marie-Andrée Mallette
Vice-Chair: Jack Christie

Members: Rosemary Davis (Board Chair), Don Haliburton, Deborah Whale and Réal Tétrault.

Members of the Audit Committee are independent of management. All committee members are financially literate and several members are considered to be financial experts, as those terms are now commonly used with respect to the composition of audit committees.

The Audit Committee oversees the FCC financial performance, ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems, integrated risk management processes and audit functions. Recommendations from the Audit Committee are brought to the Board as required.

This committee meets regularly with representatives of the Office of the Auditor General and FCC internal auditors, without management present.

Human Resources Committee

Chair: Warren Ellis
Vice-Chair: Donna Graham

Members: Rosemary Davis (Board Chair), John J. Ryan (CEO), Russel Marcoux, Don Haliburton, and Réal Tétrault

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for identifying the skills and characteristics essential to the position of Chief Executive Officer and for establishing a process to assess performance, and agreeing to an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's succession plan, including plans for training and development of all employees, and for the review of the Executive Perquisites Program with respect to senior management.

Corporate Governance Committee

Chair: Joan Meyer
Vice-Chair: Russel Marcoux

Members: Rosemary Davis (Board Chair), John J. Ryan (CEO), Marie-Andrée Mallette, Jack Christie, Donna Graham, and Claude Ménard

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices including the updating of Board practices and procedures related to conducting meetings, their frequency and length, the kind of materials and information provided to board members, and the reporting of meetings. This year, the Corporate Governance Committee has also assumed responsibility for the corporation's strategy concerning Corporate Social Responsibility reporting.

The Corporate Governance Committee regularly reviews the number, structure, composition and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the Board's policies with respect to ethics, conflict of interest and code of conduct for directors.

Nominating Committee

Chair: Deborah Whale

Members: Rosemary Davis (Board Chair), Warren Ellis, John J. Ryan (CEO), Russel Marcoux, Don Haliburton, and Réal Tétrault

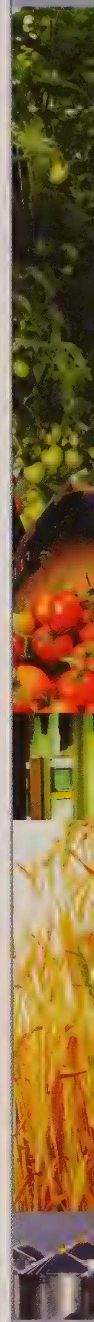
This committee reviews the qualifications of possible candidates and makes recommendations to the Board and Minister regarding the appointment of the President and CEO and new members to the FCC Board of Directors.

Pension Committee

Board Representatives: Joan Meyer and Claude Ménard

The Board of Directors provides representation on the corporation's pension committee to oversee the administration of pension plans, including the investment guidelines, the appointment of the pension fund managers and any material changes to the benefits granted to retiring employees. The Board's representatives on the Pension Committee make regular reports to the Human Resources Committee regarding suggested changes to the corporation's pension plans. Recommendations for change are then made by the Human Resources Committee to the Board for approval.

In addition to two Board members, the committee includes senior management representatives and elected employees.



Board of Directors

Rosemary Davis, Chair since June 20, 2000, Director since December 19, 1995

With more than 30 years of experience in the agriculture industry, Rosemary Davis is the owner of Tri-County Agromart Ltd. in Trenton, Ontario, and manages a large cash crop farm in Port Hope, Ontario. Ms. Davis is active on many local and provincial agriculture committees and associations. She is a director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. She is a member of the Fertilizer Institute of Ontario's Fertilizer Use Committee, the Ontario Federation of Agriculture and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership in the Ontario Institute of Agrologists. She resides in Cobourg, Ontario.

Jack Christie, FCA, Director since November 27, 2003

Jack Christie is a Fellow of the Canadian Institute of Chartered Accountants and the General Manager and CEO at Northumberland Dairy Co-operative Ltd. in New Brunswick, where he has been for the past 18 years. Mr. Christie is also a director and past-president of the Atlantic Dairy Council, and the president of the New Brunswick Milk Dealers' Association. He has served as president of the New Brunswick Institute of Chartered Accountants and as a member of the Board of Governors of the Canadian Institute of Chartered Accountants. Mr. Christie is the past-president and a member of the Rotary Club of Newcastle and is the treasurer for Enterprise Miramichi.

Warren Ellis, Chair, Human Resources Committee, Director since April 4, 1995

Warren Ellis Produce in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley and wheat. Mr. Ellis is president and CEO of O'Leary Potato Packers Ltd., an operation that buys, packs and markets potatoes. In 1994, he was the Atlantic region honouree in Canada's Outstanding Young Farmers Program. Mr. Ellis and his family are ranked among the top three Canadian families for fundraising in support of the Terry Fox Foundation. As well, Mr. Ellis has served his community as a board member of the Western School Board and the P.E.I. Lending Authority and as chair of the O'Leary Community Sports Centre and the Potato Blossom Festival. Mr. Ellis is a long-time sponsor and organizer of hockey, ball and other sports.

Donna Graham, Director since September 26, 2000

Donna Graham is a managing partner of Graham Farms Vulcan Ltd., a 4,200-acre grain and oilseed operation near Vulcan, Alberta. Ms. Graham has acted as an adviser on agricultural issues to various federal and provincial government departments and served on the boards of Alberta Women in Support of Agriculture and the Canadian Farm Women's Education Council. She has received the Alberta Government Recognition Award for her contribution to the development of recreation and culture in the province and a national 4-H award for her dedication to the 4-H movement. Ms. Graham served as a director for the Western Barley Growers Association and the Western Canadian Wheat Growers Association and was Chair of Protocol for the Southern Alberta Summer Games.

Don Haliburton, CA, Director since November 4, 2003

Don Haliburton is a Chartered Accountant with more than 20 years of experience in public practice and in senior management roles with businesses in a number of industries. He is the General Manager of Exchange-a-Blade Ltd., a distributor and remanufacturer of power tool accessories. From 1994 to 2000, he was the Vice-president, Finance, of International Aqua Foods Ltd., a TSE-listed aquaculture company with operations in Canada, the United States and Chile. Mr. Haliburton has been involved with a number of Boards of Directors including Ethics in Action – a non-profit organization promoting Corporate Social Responsibility and Potluck Cafe – a non-profit social enterprise providing food and employment in the Vancouver Downtown Eastside.

Marie-Andrée Mallette, Chair, Audit Committee, Director since June 16, 1995

Marie-Andrée Mallette participates in large-scale commercial crops and coloured beans operation in Quebec, with a focus on exporting. A lawyer in the agriculture domain for 18 years, Ms. Mallette has served as the regional director of the Quebec Business Women's Association and she founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers and has provided advisory services to exporting companies and agricultural operations seeking equity financing. She is active with the Chamber of Commerce and the Women for Access to Political and Economic Power.

Ms. Mallette contributes to her community by organizing educational programs at the primary level and by participating in fundraising projects for the Canadian Postal Museum and the Canadian Museum of Civilization in Gatineau, Quebec. Her involvement in the community and with the industry stakeholders contributed to the visibility of FCC in the province.

Russel Marcoux, Director since December 10, 2002

Russel Marcoux is the CEO of the Yanke Group of Companies, a firm that specializes in transportation, employing more than 700 staff and operating a fleet of more than 500 trucks. Mr. Marcoux also owns a Saskatchewan grain farm. He is currently the Chair of the Board of Directors for the Canadian Chamber of Commerce, and is involved with St. Paul's Hospital in Saskatoon, Saskatchewan and the Children's Health Foundation.

Joan Meyer, Chair, Corporate Governance Committee, Director from January 11, 1995 to September 1996, re-appointed September 26, 2000

Joan Meyer is a co-owner and operator of a mixed farming enterprise near Swift Current, Saskatchewan. She owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She serves as a director on a variety of boards at the national, provincial and local level, including Canadian Lutheran World Relief, Sask Culture, Swift Current Housing Authority and the Dr. Noble Irwin Healthcare Foundation. Her work in the volunteer sector has been widely acknowledged and includes the honorary degree of Doctor of Christian Letters from The Lutheran Theological Seminary in Saskatoon, Saskatchewan.

John J. Ryan, Director since September 1, 1997

Responsible for the strategic leadership of Farm Credit Canada (FCC), John Ryan joined FCC as President and Chief Executive Officer in 1997. John has been instrumental in creating a high-performance culture at FCC. The corporation's customer loyalty and market share have increased significantly during his tenure. John is a graduate of Harvard Business School's Advanced Management Program and holds a Bachelor of Business Administration from St. Francis Xavier University. Prior to joining FCC, John was Chief Operating Officer at the Business Development Bank of Canada (BDC).

Deeply committed to community involvement, John currently serves on the Board of Directors for Regina's Adult Learning Centre and the Hospitals of Regina Foundation. He is a member of the Board of Trustees for the Canadian Athletic Foundation and was a member of the Board of Directors for the 2005 Canada Summer Games. John has served as past Chairman for several Regina United Way campaigns and led the CEO Challenge for Habitat for Humanity in 1998 and 2001. In 2002, Mr. Ryan was awarded a Commemorative Medal for the Queen's Golden Jubilee, in recognition of his significant contributions to the people of Canada. In 2004, Mr. Ryan received the Excel Award from the International Association of Business Communicators (IABC). This international award recognizes a CEO who champions effective communication throughout his or her organization.

Réal Tétrault, Director since June 23, 2005

Réal Tétrault owns and manages Emerson Milling Inc., a successful oat milling company he started in 1987. Mr. Tétrault is quite active in grain research and development and has participated in numerous studies and breeding programs. He has initiated several projects in partnership with the University of Manitoba and the University of Minnesota in agri-food and animal feed. He is a founding member of the Prairie Oat Breeders Consortium at the University of Manitoba. He is also a member of the Manitoba Food Processors Association, the Manitoba Chamber of Commerce and sits on the board of the Emerson Economic Development Group. He served on the council of the Rural Municipality of Franklin for nine years. As well, Mr. Tétrault has been a participating member in foreign trade missions with the Government of Canada and the Government of Manitoba.

Deborah Whale, Chair, Nominating Committee, Director since November 4, 2003

Deborah Whale is vice-president and co-owner/operator of Clovermead Farms Inc., a commercial dairy and veal production business. She is the chair of the Poultry Industry Council of Canada and was co-chair of the Minister's Advisory Committee, Canadian Food Inspection Agency, chair of the Agriculture Research Institute of Ontario, chair of the Veterinary Infectious Disease Organization and is the vice-chair of the Ontario Farm Products Marketing Commission. She is also a director with Ontario Agricultural Hall of Fame and the Alberta Poultry Research Council.

R. Claude Ménard, FCP, Director since March 11, 2005

Mr. Ménard is a Chartered Accountant with 40 years experience, beginning with a private firm in Montreal, and then with several key senior management roles in the mining, steel and agriculture industries. He was CEO of Agropur, the largest dairy cooperative in Canada between 1989 and 2003. He has served as Chair of the Board of Directors with NATREL Inc., Aliments Ultima Inc., the George Morris Centre and the National Dairy Council and sat on the board of the Agri-Food Competitiveness Council. Since 1999, Mr. Ménard has been a Board member with the Groupe Deschênes Inc. Mr.Ménard is a member of the Financial Executive Institute.

Glossary of terms

AgValue
AgValue refers to agribusiness customers who get loans from FCC. It includes customers who are suppliers and/or processors that are selling to, buying from, and otherwise serving primary producers. These include equipment manufacturers, dealers, input providers, wholesalers, marketing firms, sawmills and processors.

AgProduction
AgProduction refers to customers who get loans from FCC and include agricultural operations that produce raw commodities such as crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include but are not limited to vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish both ocean and land based) and lifestyle customers.

Alliances
Relationships established by contract between FCC and other agricultural or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses
Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Arrears
Arrears are defined as all amounts greater than $500 that are past due.

Asset/liability management committee (ALCO)
A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point
One hundredth of one percent, used when describing applicable interest rates or the yield of an investment.

Corporate governance
Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Corporate social responsibility (CSR)
CSR is about accessibility, accountability and transparently pursuing long-term corporate objectives in a manner that balances corporate decision making, behaviour and performance with the evolving values, norms and expectations of society.

Counterparty
The opposite side of a financial transaction, typically another financial institution.

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Debt-to-equity ratio
The level of debt expressed as dollars of debt per one dollar of equity.

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

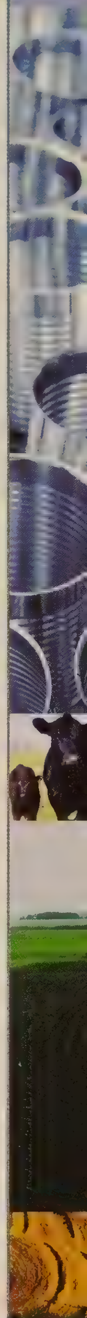
Efficiency ratio
A measure of how well resources are used to generate income calculated as administration expenses as a percentage of revenue (composed of net interest income, net lease income and other income).

Enterprise
Specific type of agricultural operation, for example, dairy, cash crops, beef, etc.

Enterprise risk management
The balance of the Corporation's risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis
A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes at specifically defined periods.



Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans
Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred on debt.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR)
Exposure to a decline in net interest income and capital position as a result of changes in interest rates. Varieties of interest rate risk include: prepayment risk, commitment risk and reinvestment risk.

Leverage
The relationship between total liabilities and the equity of a business.

Liquidity risk
The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net disbursements
Represents disbursement of funds against approved loans excluding refinancing of existing FCC loans.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Prepayments
Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Provision for credit losses
The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on assets (ROA)
Net income expressed as a percentage of average assets.

Return on equity (ROE)
Net income expressed as a percentage of average equity.

Risk scoring and pricing system (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic credit risk model (SCRM)
A tool to measure overall credit risk present in the portfolio, which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value-added
Agricultural businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

Variable interests
Contractual, ownership or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets.

Variable interest entity
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

FCC Office Locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta
Barrhead, Brooks (S), Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, Stettler (S), Stony Plain, Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard (S), Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Melita (S), Morden, Neepawa, Portage, Shoal Lake (S), Steinbach,Stonewall (S), Swan River (S), Virden

Ontario
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-Loup, Sherbrooke, Ste-Foy, St-Georges-de-Beauce (S), St-Hyacinthe, St-Jean, St-Jérôme, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick
Grand Falls, Moncton, Sussex, Woodstock

Newfoundland and Labrador
St. John's

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

(S) Satellite office – restricted hours

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Fax: (306) 780-5456

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AgExpert
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Regina, Saskatchewan S4S 7J7
Telephone: (306) 721-7949
Fax: (306) 721-1981

FCC Ventures – Calgary
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Calgary, Alberta T2P 2W2
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Fax: (403) 292-8621

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Fax: (905) 465-4332

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Regina, Saskatchewan S4N 7B9
Telephone: (306) 780-8839
Fax: (306) 780-5792

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St-Hyacinthe, Quebec J2S 4Z6
Telephone: (450) 771-7431
Fax: (450) 771-7456

www.fccventures.ca
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– Photography by Greg Huszar

www.fcc-fac.ca
Customer toll-free number: 1-888-332-3301


FCC


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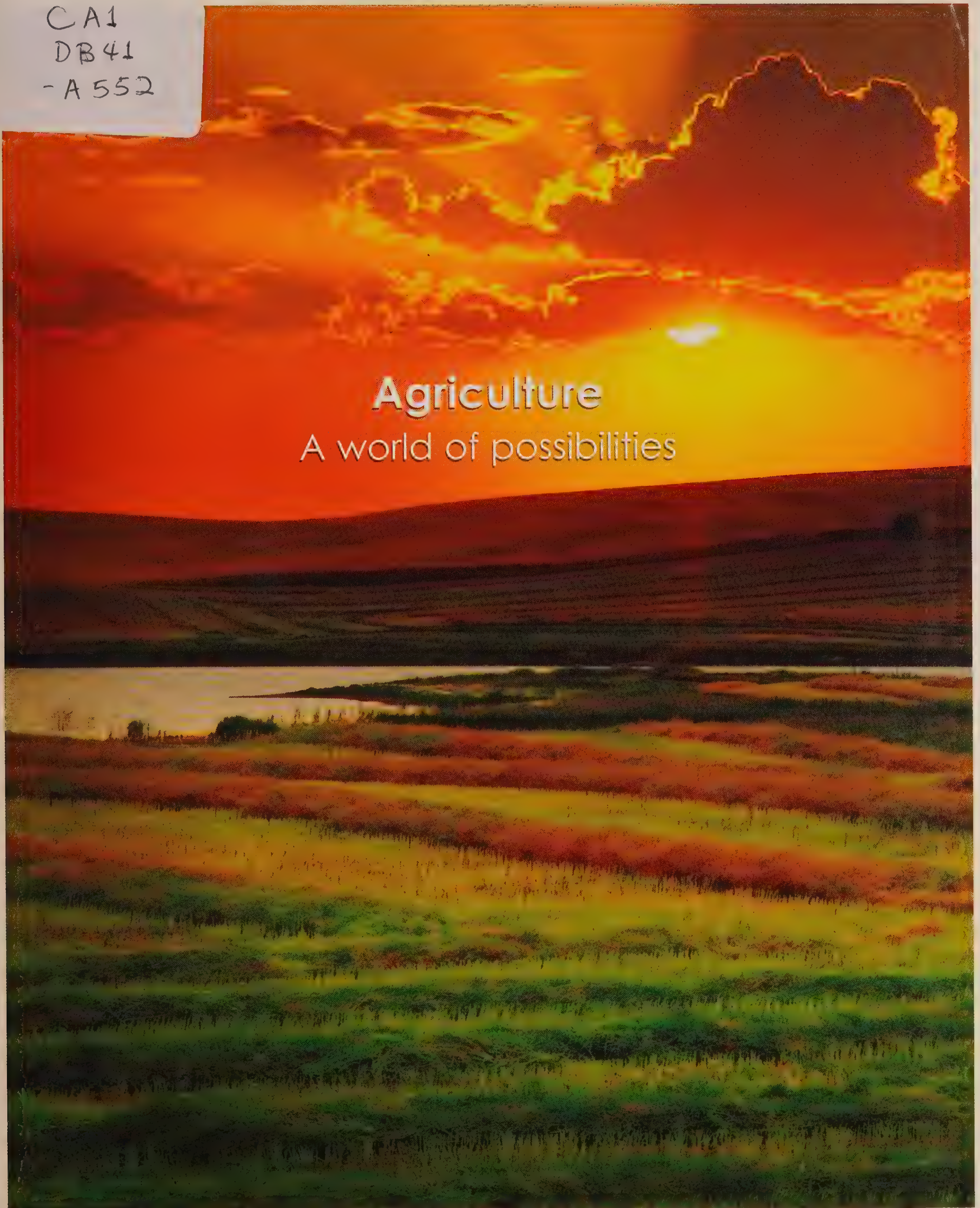
Canada

Annual Report 2006-07



Farm Credit Canada

Annual Report 2006-07 Summary

fcc Farm Credit Canada

Why we exist

Vision

Visionary leaders and trusted partners in finance and management services tailored to agriculture – leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.

Mission

To enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Public policy

We fulfil our public policy role of enhancing rural Canada by offering loans and services to the agricultural community. These services include management software, information and learning to help customers make sound business decisions. Our commitment extends to customers throughout rural Canada with services provided in both official languages. Founded on providing lending services to primary producers, FCC's depth of support now extends to financing businesses that provide inputs to and outputs from primary production.

FCC is built on solid business principles, which includes assuming an appropriate level of risk.

Our commitment to agriculture is unwavering. We are dedicated to supporting the industry by working with our customers to see them through challenges and to help them take advantage of opportunities.

How we behave

Corporate values

FCC's corporate values represent our core beliefs:

Focus on the customer
We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity
We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Work together
We believe in the power of teamwork. We work together with customers to design services tailored to their needs. We partner with other organizations to benefit our customers.

Give back to the community
We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieve excellence
We are committed to one thing – the success of the Canadian agriculture industry. We set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees achieve their potential.

The FCC value proposition

What you can expect from us

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

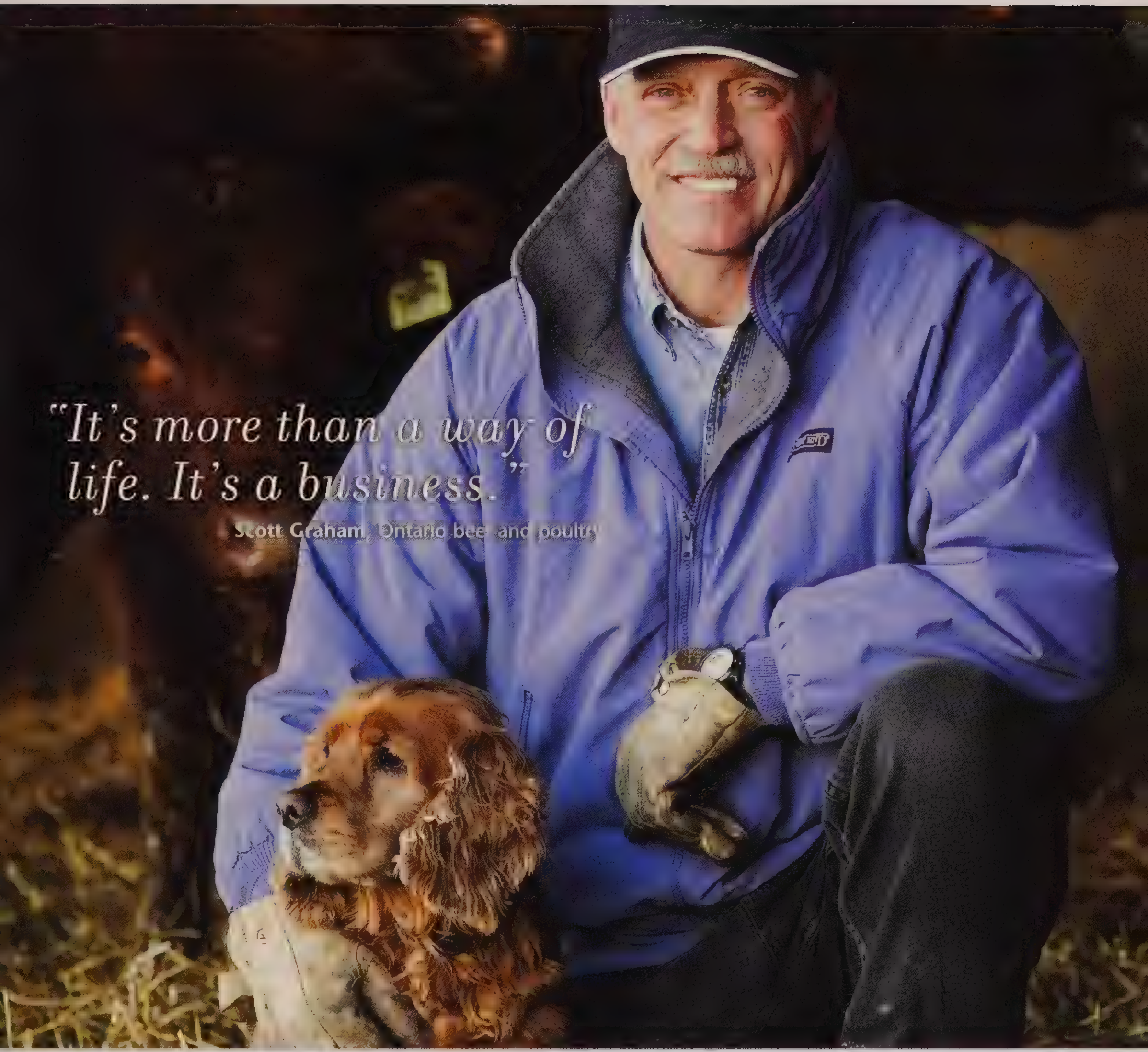
We focus on the primary producer as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible, competitively priced financing, equity, insurance, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it. We're in it for the long run.



Scott and his wife Laurie enjoy the satisfaction of growing crops and raising livestock, and they also understand the business side of operations and the importance of bio-security and sustainability.

Scott began his relationship with FCC shortly after starting his farming career in the mid-'70s. He says FCC understands the nature of agriculture and they truly take an interest in the success of his operation. Agriculture is big business, and he believes it's important to have a partner that caters to the industry.

Products and services

We care about our customers and take the time to listen, learn and understand their goals.

We offer a combination of financing, equity, insurance, management software, information and learning through our business lines. At the end of the day, we want customers to say, "Wow, that was easy. FCC really cares about my success."

AgProduction

We lend money to primary producers. Our loans are tailored to the unique needs of agriculture. Our diverse customers include those who produce raw commodities such as crops, beef, hogs, poultry, sheep, dairy, fruits, vegetables and alternative livestock or crops. An FCC Relationship Manager works with customers to find the right combination of terms, security and payment schedules.

AgValue

We also lend money to those who buy from and sell to primary producers. These are the equipment manufacturers and dealers, input providers, truckers and processors along the agriculture value chain. If customers need financing to do business, they can talk to us and we will help them take advantage of opportunities.

Alliances

We provide lending services where our customers do business through a team of equipment dealers, input, livestock and manufacturer partners. Customers can obtain loan approvals on the spot. Equipment dealers can help their customers get their equipment loans by becoming a member of our National Equipment Dealers Finance Program.

AgriSuccess

We advance farm management practices through information and learning. These include workshops such as managing farm finances, human resources, succession planning and others.

This past year, we launched the Winning in Agriculture series, the largest AgriSuccess speaker series ever hosted by FCC. The events were held in six cities across Canada, featuring informative speakers ranging from local agriculture business leaders to climate and weather specialists.

Every week, customers can get the latest in agriculture e-news with AgriSuccess Express. They receive provincial, national and international news and trends that affect agriculture – and their bottom line. AgriSuccess Express is delivered free every week.

Customers can learn more about farm management strategies with AgriSuccess Journal, published every two months. With this free national farm management magazine, they get tips and insight from other industry experts and producers.

AgExpert

We offer Canada's leading management software for agricultural producers – AgExpert Analyst and AgExpert Field Manager PRO. These allow producers to easily produce financial statements, manage their business, and track and report important field and crop records.

AgExpert Analyst allows customers to track income and expenses. With just a few clicks, a completed GST return is ready. It's the accounting software that's designed specifically for Canadian agriculture.

AgExpert Field Manager PRO software is an innovative crop record-keeping and planning system that gives customers access to all of their crop production data – any time, anywhere. They can get a complete picture of their operation as it is – and as it could be – on a desktop PC or handheld.

Agri-Assurances

Insurance is an important aspect to any business. It's also important to our customers. That's why we offer loan life and accident insurance tailored to agriculture. It's the best way to protect them, their families and their businesses.

FCC Ventures

FCC Ventures, the corporation's venture capital division, has been successful in addressing the need for non-traditional capital financing in Canada's agriculture industry.

This year, FCC Ventures invested $19.8 million in venture capital funds, bringing the total provided to the industry to $63.0 million since its inception in 2002. In addition to its own investments, FCC has attracted other venture capital to agriculture from third party co-investors totalling $1.60 for every dollar invested by FCC.

During the year, FCC leveraged this success by becoming the lead sponsor and committing $50 million to a new venture capital fund called Avrio Ventures Limited Partnership. The fund intends to capitalize on the convergence of life sciences and industrial technology and will focus on Canadian commercialization to growth stage companies in three emerging sectors: industrial bio-products, food technology and nutraceutical ingredients. Avrio Ventures is represented across Canada with offices located in Calgary, Alberta, Oakville, Ontario and Montreal, Quebec.

Online Services

We make it easy for customers to do business with us. Customers can check their entire portfolio online, review farmland values reports, use our online farm finance kit, watch commodity futures prices, the weather and news, 24 hours a day, seven days a week.

CanadianFarmersMarket.com

Promoting Canadian agriculture and helping customers market their products are important to us. That's why we promote customer products and services by bringing buyers and sellers together on CanadianFarmersMarket.com. Consumers can purchase Canadian products online, direct from the producer, while learning what agriculture has to offer.

Jerry knows anything is possible when you have a lender who looks beyond the numbers and believes in the person behind the vision.

Jerry built his business with a vision – provide celiacs, people with autism and others with special dietary requirements with a risk-free source of food products that actually taste good. Today, there are over 120 gluten-free Kinnikinnick-brand food products, ranging from breads, buns and bagels to cookies, muffins, and cereals.

FCC loans

We pride ourselves on offering flexible financing that producers and their suppliers and processors can customize for their operations. Our people understand agriculture and take the time to work with customers to offer the right loan with a flexible combination of terms, security and payment options.

Customized loans

Accelerator Loan

New

As a young farmer, you can buy or build with zero down, full payment flexibility and no-cost access to farm management tools.

Advancer Loan

Use this pre-approved, secured loan with the flexibility to re-advance funds at your discretion.

American Currency Loan

If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.

Capacity Builder Loan

Purchase quota or breeding livestock with pre-approved financing for up to one year and the option to capitalize interest.

Cash Flow Optimizer Loan

Make interest-only payments and re-invest funds into other areas of your operation. Simply pay down the principal when you choose.

Construction Loan

Get interim financing for up to 18 months on construction projects including processing plants, cold storage and grain storage facilities. Use the money to build and only pay when your project is done.

Enviro-Loan

Defer principal payments in constructing, improving or expanding your operation when you improve environmental facilities.

Farmbuilder Loan

Defer your principal payments while you build, with interim financing for up to 18 months on construction projects.

First Step Loan

Use your post-secondary education to buy your first farm-related asset.

Flexi-Farm Loan

Defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.

Herd Start Loan

Take time after starting or expanding your livestock operation. Use your cash flow to grow your business.

1-2-3 Grow Loan

Manage your cash flow with interest-only payments until you get a return on your investment.

Opportunity Loan

Fund your agribusiness expansion with principal payment holidays for up to 12 months.

Payday Loan

Use your off-farm income to start or expand your farm business.

Performer Loan

Get rewarded with lower interest rates when your business achieves pre-set financial goals and ratios.

Plant Now – Pay Later Loan

Defer payments in your horticulture operation until your new plantings start to generate cash flow.

Spring Break Loan

Match your payment schedule to the forestry harvesting season.

Stop and Grow Loan

Defer principal payments at your woodlot as saplings grow into profits.

Transition Loan

Help the next generation purchase your property at retirement. Get the equity from your farm without risk.

Personal property

Buying equipment or livestock? Choose from these options:

Variable

Rate floats as interest rates rise or fall, plus lock in your rate, or prepay any amount, any time.

Closed

A low fixed rate for the term of the loan.

Open

Low fixed rate with option to prepay any amount, any time.

Real property

Perfect for those looking to purchase land or financing the construction of a new building.

Variable

Rate floats as interest rates rise or fall, plus option to prepay up to 10 per cent, any time.

Closed

A low fixed rate for the term of the loan.

Fixed

Fixed rate with option to prepay up to 10 per cent any time.

Operational and financial highlights

In 2006-07, FCC grew its portfolio by $1.2 billion or 10.1 per cent. Net disbursements were $3.7 billion. Equity continues to grow with increases in net income. The corporation continues to build its strong financial foundation, ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles. Our net income is reinvested back into agriculture.

For the years ended March 31

Operational	**2007**	2006
Loans receivable portfolio		
Number of loans	**91,658**	88,559
Loans receivable ($ millions)	**13,550.4**	12,310.2
Net portfolio growth (per cent)	**10.1**	10.4
Loans receivable in good standing (per cent)	**97.4**	97.5
New lending		
Number of loans disbursed	**28,684**	28,634
Net disbursements ($ millions)	**3,714.7**	3,317.3
Average size of loans disbursed ($)	**129,504**	115,852

Financial	**2007**	2006
Balance sheet ($ millions)		
Total assets	**13,834.2**	12,576.3
Total liabilities	**12,372.1**	11,312.5
Equity	**1,462.1**	1,263.8
Income statement ($ millions)		
Net interest income	**414.6**	388.4
Provision for credit losses	**38.9**	62.4
Other income	**5.8**	6.6
Administration expenses	**177.7**	163.0
Net income	**203.8**	169.6

Farm Credit Canada

1-888-332-3301 www.fcc.ca

Cette publication est aussi offerte en français.

Canada

Table of Contents

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The FCC value proposition

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

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FCC's corporate values represent our core beliefs:

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We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieve excellence
We are committed to one thing – the success of the Canadian agriculture industry. We set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees achieve their potential.

Cultural practices

In addition to the corporate values, our cultural practices explicitly outline the behaviours employees and Board members are expected to demonstrate at all times with colleagues, customers, partners, suppliers and stakeholders.

We hold ourselves and each other accountable for:

- our impact on business results and our impact on people
- delivering on commitments, agreements and promises
- building and sustaining committed partnerships
- creating a safe environment where people can speak up without fear

We measure our success by how others perceive and respond to our leadership, not by our personal point of view.

We talk straight in a responsible manner. We are committed to the success of others – we do not engage in conspiracies against people.

We listen for contributions and commitment. We do not listen against people or ideas.

We are highly coachable. We actively seek and listen to coaching.

We clean up and recover quickly.

We acknowledge others often and celebrate both small and large successes.

Operational and financial highlights

In 2006-07, FCC experienced another year of exceptional growth with its portfolio growing by $1.2 billion or 10.1 per cent. The number of disbursements increased slightly in 2006-07, however the average size of the loans disbursed rose significantly, resulting in net disbursements reaching $3.7 billion. Equity continues to grow with increases in net income. This is composed of growth in net interest income and lower provision for credit losses, somewhat offset by higher administration expenses and lower other income. The corporation continues to build its strong financial foundation, ensuring sufficient resources for continued growth and viability while supporting customers during all economic cycles.

For the year ending March 31

Operational	2007	2006	2005	2004	2003
Loans receivable portfolio					
Number of loans	**91,658**	88,559	85,650	82,551	78,442
Loans receivable ($ millions)	**13,550.4**	12,310.2	11,150.0	10,039.0	8,803.7
Net portfolio growth (per cent)	**10.1**	10.4	11.1	14.0	14.2
Loans receivable in good standing (per cent)	**97.4**	97.5	96.9	96.0	96.4
New lending					
Number of loans disbursed	**28,684**	28,634	27,948	26,529	25,133
Net disbursements ($ millions)	**3,714.7**	3,317.3	3,067.2	2,861.7	2,561.4
Average size of loans disbursed ($)	**129,504**	115,852	109,747	107,871	101,914

Financial	2007	2006	2005	2004	2003
Balance sheet ($ millions)					
Total assets	**13,834.2**	12,576.3	11,405.0	10,203.9	8,982.3
Total liabilities	**12,372.1**	11,312.5	10,320.5	9,258.7	8,142.7
Equity	**1,462.1**	1,263.8	1,084.5	945.2	839.6
Income statement ($ millions)					
Net interest income	**414.6**	388.4	351.9	314.4	273.2
Provision for credit losses	**38.9**	62.4	95.2	84.0	67.2
Other income	**5.8**	6.6	5.0	4.1	6.6
Administration expenses	**177.7**	163.0	143.7	128.9	116.3
Net income	**203.8**	169.6	118.0	105.6	96.3

Message from the President and CEO

Agriculture is an incredibly diverse and dynamic industry. Its success hinges on the innovation and perseverance of those who work in this rewarding and demanding business.

Canadian agriculture experienced an interesting year marked with challenges in some sectors and successes in others. Overall, a higher Canadian dollar and rising fuel and fertilizer costs adversely affected agriculture exports and profit margins. Conversely, new opportunities continued to rise. The area of alternative fuels shows promising activity as consumers and industry search for an answer to global dependence on oil. This opens the possibilities of higher demand and better prices for grains and oilseed crops, improving profits for producers.

Our customers have proven that their resilience and ingenuity in agriculture can overcome any challenge that comes their way. It is our job to explore new ways to grow and expand opportunities for those involved along the entire agriculture value chain.

Having a stable financial partner that is knowledgeable and specializes in agriculture has never been more important. Farm Credit Canada continues to build strong relationships with industry partners and customers to help them succeed.

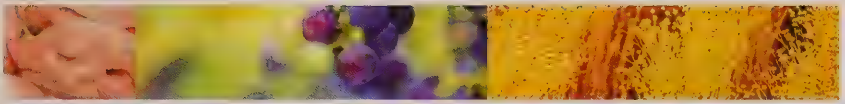
As a result of these relationships, I am pleased to report that FCC's loan portfolio grew to $13.6 billion in 2006-07, which marks 14 consecutive years of growth. In all, we lent $3.7 billion to Canadian producers, processors and suppliers, strengthening Canadian agriculture while stimulating the national economy.

When I joined FCC in September 1997, the momentum for the corporation's future was just beginning. At that time, we asked what our customers wanted from their financial partner. We listened and acted, building an organization that is customer focused.

We knew Canadian agriculture required a solid financial partner that understood the industry. That's what makes FCC different. We get agriculture. We care about the people involved in this industry. That's why we develop services and products tailored to our customers' unique needs. Together, we are working to evolve the industry and expand opportunities for everyone.

We have long recognized an imminent demographic shift as producers look to retire or move out of agriculture, while smaller producers work to establish their stake in the industry. With this in mind, we create new services and innovative loans to better serve the changing needs of our customers.

"Having a stable financial partner that is knowledgeable and specializes in agriculture has never been more important."



In 2006, FCC launched the new Accelerator Loan, a $50 million commitment in new lending to young farmers. This loan was created to enable buyers and sellers to transfer farms and farm assets from one generation to the next. There are opportunities for young farmers who want to get into agriculture. We are committed to helping them prepare for a prosperous future.

By offering specialized training and education, we are helping customers and others expand their knowledge and capabilities. This past year, we introduced the Winning in Agriculture series, the largest AgriSuccess and customer events ever hosted by FCC. The speaker series was held in six cities across Canada. Each hosted over 500 customers and others involved in the agriculture industry who heard informative speakers ranging from local agriculture business leaders to climate and weather specialists.

For the fourth consecutive year, we were named one of Canada's 50 Best Employers by the Globe and Mail's Report on Business. This year, we achieved eighth place, up from 12th last year. This is a result of our annual Hewitt Associates employee opinion survey where employees can share their views about FCC as a workplace.

Our new Board Chair is Gill Shaw, who has over 30 years of experience in agriculture and financial management. We look forward to working with Gill and his vision for enhancing Canadian agriculture.

Having a culture where people are truly excited to come to work and excel is something that is very special. As I enter my final year as President and Chief Executive Officer, I am confident we have the tools in place to deliver an extraordinary customer experience while building our commitment to creating a world-class, high-performance internal culture for years to come.

I am particularly proud of the way we work together at FCC. Through our cultural practices, we have created a work environment characterized by collaboration, new ideas and 100 per cent accountability. Employees are encouraged to evolve and build their skills, professionally and personally. Our success is due to our employee efforts, and their willingness to go the extra mile for our customers and each other.

Over the past decade, I have had the tremendous pleasure of working with many inspiring and passionate people. Together, we have shaped FCC into a strong, healthy and self-sustaining corporation committed to enhancing agriculture.

We have stayed the course and maintained our vision, and the results speak for themselves. I am extremely proud to have shared this journey with our customers, employees, Board members, friends and colleagues alike.

By constantly learning, growing and expanding, the future of agriculture will always be full of possibilities.

Thank you.

John J. Ryan

Message from the Chair

I am honoured to be the new Chair of the FCC Board of Directors. Responsibility and integrity are core values shared by all Board members and help steer the success of FCC.

The Board of Directors oversees and evaluates the management and performance of FCC operations. The Board has a long history of commitment to the highest standards of ethical conduct and accountability for its members and the organization.

Agriculture is based on a cycle of constant renewal and evolution. This year, the Board of Directors underwent a change of its own as long-time members moved on* and new members joined us.

We commend Rosemary Davis for her ongoing commitment to enhancing agriculture. After 12 years of dedicated service to the FCC Board, Rosemary stepped down as Chair, a position she had held since 2000. Her leadership and vision were key to the successful growth of FCC.

Our new Directors are Donald Bettle, Brad Hanmer, Ron Hierath and Sharon E. White.

I feel confident in the diverse experience, knowledge and passion of the men and women on our Board and look forward to working with them. Each individual brings expertise from the worlds of agriculture, business or finance.

Our industry is undergoing a demographic shift as more and more farm operations change hands, making way for the next generation. There has never been a more important time to support young farmers. The future needs producers who are on the cutting edge of new opportunities and new markets. Providing business management training, information and the tools necessary to assist in the intergenerational transfer of family farms is key to successfully meeting this challenge.

I am impressed by the commitment and dedication of the management of FCC, and by all employees nationwide. From field offices and the helpful voices on the phone to the staff in corporate office, nowhere else will you find people so willing to go the extra mile for customers and for each other.

The Board is deeply committed to maintaining this high-performance culture. In addition to FCC corporate values, the cultural practices clearly outline the behaviours that employees and Board members are expected to demonstrate at all times with colleagues, customers, partners, suppliers and stakeholders.

As a Board, we ensure the organization fulfils its mandate in the best interests of the organization and, as a Crown corporation, in the best interests of all Canadians.

FCC is an incredible organization and I am proud to be a part of it. I thank all of our employees for their daily commitment in making FCC a world-class organization where their skills shine and their passion contributes to furthering the success of Canadian agriculture.

Respectfully submitted on behalf of the Board of Directors,

Gill Shaw

Gill O. Shaw

* See page 98 regarding departing Board members

Message from the Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board

Congratulations to Farm Credit Canada on another successful year of helping the Canadian agriculture and agri-food sector grow, diversify and prosper.

FCC posted its 14th consecutive year of growth in 2006-07, a testament to the corporation's continued success in meeting the needs of Canadian agricultural producers, of others in the value chain, of employees and of communities across Canada.

Meeting clients' needs, nurturing a dedicated and motivated workforce, and fostering corporate responsibility continue to be a formula for success at FCC. The corporation moved up to eighth overall on the 50 Best Employers in Canada list this year, and was included on the list of Canada's Top 100 employers for 2006, featured in Maclean's magazine.

As a valued member of the agriculture portfolio, FCC is also instrumental in helping Agriculture and Agri-Food Canada deliver a number of important programs to Canadian producers and others in the sector.

The Canadian agriculture and agri-food sector is a bedrock industry for Canada – not only putting safe, high quality food on our tables, but also safeguarding our environment, supporting our rural communities and driving our economy and employment.

Like FCC, Canada's New Government is committed to creating new opportunities for success for our hard-working Canadian farmers. Together with FCC and our other valued partners in the agriculture portfolio, we are getting things done for farmers and others in the value chain, creating solutions and working with them to tackle challenges and take advantage of opportunities.

I am proud of the important gains we have achieved for farmers, including substantial improvements to farm income programming, increased budget commitments and support for renewable or biofuels to help farmers grow new markets for their crops – and help protect our environment.

To capture new and exciting opportunities for growth, producers need the right business tools and capacity in place. That is where FCC's role is so critical – providing innovative financial products, comprehensive information services and other products and solutions that help keep Canadian agricultural producers and the entire value chain competitive and focused on the future.

We are entering a very exciting and pivotal period for agriculture. We are now working with our portfolio partners, the provinces, the territories, the industry and all Canadians to develop a new generation of agriculture and agri-food policy that will create a prosperous and profitable future for this vital Canadian sector. FCC will certainly be an important partner in this process.

On behalf of the federal government, I extend my thanks and congratulations to FCC for its tremendous work this year. I look forward to working together in the future to capture new opportunities for Canadian farmers.

The Honourable Chuck Strahl
Minister of Agriculture and Agri-Food
and Minister for the Canadian Wheat Board

Corporate social responsibility

At FCC, we care about our customers, our employees and our communities. This care is at the heart of everything we do.

In 2006-07, FCC adopted a corporate social responsibility (CSR) framework with six categories:

- corporate governance
- human resources management
- community investment and involvement
- environment, health and safety
- human rights
- customers

Accessibility, accountability and transparency in these areas are key to the success of this framework.

Corporate governance

The FCC corporate values guide our interaction with colleagues, customers and stakeholders. Our code of conduct and ethics includes whistleblower protection to ensure employees feel safe to report wrongdoing. All staff are required to sign a declaration acknowledging that they have read the code and agree to abide by it. The code guides employees in the demonstration of appropriate behaviours.

The FCC Integrity Officer works with the CEO and the Board of Directors to uphold the highest standards of governance and accountability regarding the code of conduct and ethics. Our Board, with the exception of the CEO, is independent of management, and the functions of the Board Chair and CEO are separate.

Human resources management

We have created a healthy work environment where employees are inspired to give their best to customers. With our set of 10 cultural practices, our employees, management and Board members follow the same rules. We are accountable for building respectful relationships characterized by trust and straight talk.

FCC conducts an annual confidential employee opinion survey using the Hewitt Associates survey. The survey measures employee engagement by gathering opinions on many topics ranging from trust in senior management to satisfaction with pay and benefits. In 2006-07, employee engagement scored 82 per cent and we placed eighth on the 50 Best Employers in Canada list published by the Globe and Mail's Report on Business.

FCC spends over 3.5 per cent of annual payroll toward individual employee development every year. We encourage and support employee growth. We offer a customized field development program for lending operations staff, as well as leadership development training for managers, supervisors and Leadership Development program participants. All employees also receive training in FCC's cultural practices.

By investing in our people, we create a dynamic and positive work environment where employees can grow and attain a higher level of performance. The benefit is threefold: better results for the corporation, personal achievement for employees, and most importantly, an extraordinary experience for our customers.

We created several recognition programs to empower management and staff members to recognize and reward colleagues for their achievements.

World Food Day, Ontario

Community investment and involvement

FCC is a committed member of the Canadian Centre for Philanthropy's Imagine program. We donate at least one per cent of our annual profits to charitable and not-for-profit community and industry organizations, with a focus on food and rural safety.

By supporting organizations like 4-H, the Canadian Association of Food Banks, the Canadian Agricultural Safety Association, St. John Ambulance and Agriculture in the Classroom, we're helping to build safer agriculture workplaces and increasing awareness of food-related issues and the importance of the agriculture industry.

Growing strong rural communities is important to us. In 2006-07, the FCC AgriSpirit Fund provided $500,000 toward community improvements like emergency services equipment, playgrounds, food banks, recreation centres and care homes. Since 2004, FCC has contributed $1.3 million to communities through the AgriSpirit Fund.

FCC encourages employees to give back to their communities. When employees donate more than 20 hours of volunteer time, they are eligible to win $250 to $500 in donations for their charity. In 2006-07, our contributions totalled almost 3,000 hours valued at $26,750, benefiting 60 charitable organizations across the country. With the Employee Matching program, FCC donates another 50 cents for every dollar that three or more employees raise for registered charities.

World Food Day is an important day for FCC employees across the country. For seven days in October 2006, teams of FCC employees drove two tractors with 16-foot trailers across Ontario to Guelph, collecting food in 50 communities along the way. Another 27 FCC activities across Canada in support of World Food Day helped raise a total of 410,642 pounds of food for food banks in our communities.

Environment, health and safety

Our commitment to the environment is integrated with our lending decisions. We are responsible for environmental due diligence under the Canadian Environmental Assessment Act. We work with customers to review environmental risks through environmental questionnaires, site inspections, and environmental assessment reports from qualified consultants. Our Enviro-Loan helps customers to meet environment regulations.

We incorporate well-balanced, environmentally aware business practices into our daily operations. These practices include recycling and energy-conscious purchases of light bulbs, paper and office-related supplies.

FCC has established a bio-security protocol to ensure that employees demonstrate the importance of disease prevention at all times with customers. In addition, we are committed to raising bio-security awareness among customers and the industry at large.

AgriSpirit Fund, Brooklyn, Nova Scotia

Human rights

At FCC, we respect the rights of the individual. FCC adheres to the provisions of the Canadian Human Rights Act and has put in place a code of conduct and ethics. Whether it's working with customers, employees, suppliers or others, we take care to act responsibly.

Customers

We take the time to know our customers and understand their needs. We tailor solutions unique to each person's individual needs. This could be a loan, training, software or providing networking opportunities with other industry partners.

We work with customers facing adversity such as flooding, BSE, avian influenza or drought. Whether it's deferring payments or creating flexible repayment schedules, we do our best to help our customers succeed.

FCC AgriSuccess management workshops and seminars allow customers to gain skills to take their operations to the next level.

FCC helped 19 families through difficult times with the FCC Ag Crisis Fund in 2006-07. When our customers experience natural disasters such as fires, floods or tornadoes, we're there to help. Whether it's providing meals to volunteers, helping to rebuild a farm building or providing gift certificates for purchasing lost household items, FCC cares.

Canadian Agricultural Safety Week launch, Quebec

Corporate social responsibility highlights

For the year ending March 31, 2007

FCC takes corporate social responsibility seriously. We care about our employees, customers and the communities where we live and work.

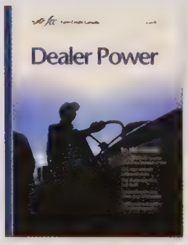
According to the Conference Board of Canada, corporate social responsibility is about "transparently pursuing long-term corporate objectives in a manner that balances corporate decision-making, behaviour and performance with the evolving values, norms and expectations of society."

The following summary was adapted from the Globe and Mail's Report on Business as a measure of FCC's performance in six key decision-making, behaviour and performance priority areas.

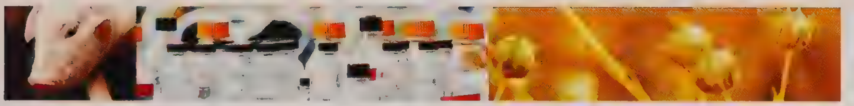
Corporate governance	2006-07	2005-06
Statement of social responsibility	yes	not yet
Statement of corporate values	yes	yes
Code of business conduct	yes	yes
Board Chair and company CEO are separate functions	yes	yes
Human resources management		
Conducts employee satisfaction surveys: • Included in Globe and Mail's Best Employers list and Maclean's Top 100 companies	yes	yes
Provides employees with education and development	yes	yes
Conducts annual market compensation reviews	yes	yes
Policy on diversity and employment equity	yes	yes
Public reports on diversity issues	yes	yes
Offers employees diversity training	yes	yes
Benefits include additional maternity and paternity benefits	yes	yes
Percentage of women on the Board	36	42
Percentage of women among senior management team	24	14
Community investment		
Policy statement on community donations is available to the public	yes	yes
Calculates donations based on one per cent of profits	yes – 1.59%	yes – 1.19%
Programs are in place to support employee giving and volunteering	yes	yes
Environment, health and safety		
Corporate environmental management systems in place, including policies, programs and performance analysis	in progress	not yet
Reports on resource use (energy, materials, water)	not yet	not yet
External reporting on lending environmental risk management	yes	in progress
Lending environmental risk management policy and processes, including environmental risk assessment	yes	yes
Bio-security protocol for customer visits	yes	in progress
Offers loans that reduce environmental impact	yes	yes
Environmental reporting, including policy, programs and initiatives, performance and compliance data	in progress	in progress
Human rights		
Human rights policy and code of conduct	yes	yes
Policy/code of conduct governing the supply chain of procured items	yes	not yet
Customers		
Conducts customer satisfaction surveys	yes	yes
Helps customers market their products: • 316 customers with 369 listings on CanadianFarmersMarket.com	yes	yes
Loans to meet the needs of new entrants into agriculture	yes	yes
Offers industry-related training: • AgriSuccess delivered 85 events	yes	yes

"The integrity, resiliency and innovative capacity of the agriculture industry are second to none." – **Brian M. Hughes**, Chief Executive Officer, ACC Farmers' Financial

Brian and his team at ACC Farmers' Financial are committed to providing innovative financial solutions and they partner with FCC's Alliances to develop programs that assist the agriculture industry in Ontario.



Members of FCC's dealer network stay connected, informed and enthusiastic with the help of regular store visits by our Relationship Managers and our Dealer Power newsletter that is distributed three times annually.



Products and services

We care about our customers and take the time to listen, learn and understand their goals.

We offer a combination of financing, equity, insurance, management software, information and learning through our business lines. At the end of the day, we want customers to say, "Wow, that was easy. FCC really cares about my success."

AgProduction

We lend money to primary producers. Our loans are tailored to the unique needs of agriculture. Our diverse customers include those who produce raw commodities like crops, beef, hogs, poultry, sheep, dairy, fruits, vegetables and alternative livestock or crops. An FCC Relationship Manager works with customers to find the right combination of terms, security and payment schedules.

AgValue

We also lend money to those who buy from and sell to primary producers. These are the equipment manufacturers and dealers, input providers, truckers and processors along the agriculture value chain. If customers need financing to do business, they can talk to us and we will help them take advantage of opportunities.

Alliances

We provide lending services where our customers do business through a team of equipment dealers, input, livestock and manufacturer partners. Customers can obtain loan approvals on the spot. Equipment dealers can help their customers get their equipment loans by becoming a member of our National Equipment Dealers Finance Program.

AgriSuccess

We advance farm management practices through information and learning. These include workshops such as managing farm finances, human resources, succession planning and others.

This past year, we launched the Winning in Agriculture series, the largest AgriSuccess speaker series ever hosted by FCC. The events were held in six cities across Canada, featuring informative speakers ranging from local agriculture business leaders to climate and weather specialists.

Every week, customers can get the latest in agriculture e-news with AgriSuccess Express. They receive provincial, national and international news and trends that affect agriculture – and their bottom line. AgriSuccess Express is delivered free every week.

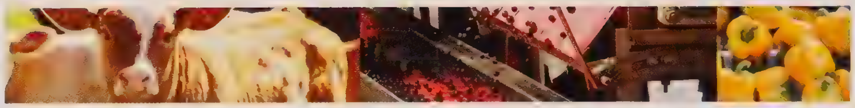
Customers can learn more about farm management strategies with AgriSuccess Journal, published every two months. With this free national farm management magazine, they get tips and insight from other industry experts and producers.

AgExpert

We offer Canada's leading management software for agricultural producers – AgExpert Analyst and AgExpert Field Manager PRO. These allow producers to easily produce financial statements, manage their business, and track and report important field and crop records.

AgExpert Analyst allows customers to track income and expenses. With just a few clicks, a completed GST return is ready. It's the accounting software that's designed specifically for Canadian agriculture.

AgExpert Field Manager PRO software is an innovative crop record-keeping and planning system that gives customers access to all of their crop production data – any time, anywhere. They can get a complete picture of their operation as it is – and as it could be – on a desktop PC or handheld.



Agri-Assurances

Insurance is an important aspect to any business. It's also important to our customers. That's why we offer loan life and accident insurance tailored to agriculture. It's the best way to protect them, their families and their businesses.

FCC Ventures

FCC Ventures, the corporation's venture capital division, has been successful in addressing the need for non-traditional capital financing in Canada's agriculture industry.

This year, FCC Ventures invested $19.8 million in venture capital funds, bringing the total provided to the industry to $63.0 million since its inception in 2002. In addition to its own investments, FCC has attracted other venture capital to agriculture from third party co-investors totalling $1.60 for every dollar invested by FCC.

During the year, FCC leveraged this success by becoming the lead sponsor and committing $50 million to a new venture capital fund called Avrio Ventures Limited Partnership. The new fund intends to capitalize on the convergence of life sciences and industrial technology and will focus on Canadian commercialization to growth stage companies in three emerging sectors: industrial bio-products, food technology and nutraceutical ingredients. Avrio Ventures is represented across Canada with offices located in Calgary, Alberta, Oakville, Ontario and Montreal, Quebec.

Online Services

We make it easy for customers to do business with us. Customers can check their entire portfolio online, review farmland values reports, use our online farm finance kit, watch commodity futures prices, the weather and news, 24 hours a day, seven days a week.

CanadianFarmersMarket.com

Promoting Canadian agriculture and helping customers market their products are important to us. That's why we promote customer products and services by bringing buyers and sellers together on CanadianFarmersMarket.com. Consumers can purchase Canadian products online, direct from the producer, while learning what agriculture has to offer.

Winning in Agriculture event, Manitoba

FCC loans

We pride ourselves on offering flexible financing that producers and their suppliers and processors can customize for their operations. Our people understand agriculture and take the time to work with customers to offer the right loan with a flexible combination of terms, security and payment options.

Customized loans

Accelerator Loan

New

As a young farmer, you can buy or build with zero down, full payment flexibility and no-cost access to farm management tools.

Advancer Loan

Use this pre-approved, secured loan with the flexibility to re-advance funds at your discretion.

American Currency Loan

If you derive a lot of your revenue in U.S. dollars, you can borrow and make payments in U.S. dollars.

Capacity Builder Loan

Purchase quota or breeding livestock with pre-approved financing for up to one year and the option to capitalize interest.

Cash Flow Optimizer Loan

Make interest-only payments and re-invest funds into other areas of your operation. Simply pay down the principal when you choose.

Construction Loan

Get interim financing for up to 18 months on construction projects, including processing plants, cold storage and grain storage facilities. Use the money to build and only pay when your project is done.

Enviro-Loan

Defer principal payments in constructing, improving or expanding your operation when you improve environmental facilities.

Farmbuilder Loan

Defer your principal payments while you build, with interim financing for up to 18 months on construction projects.

First Step Loan

Use your post-secondary education to buy your first farm-related asset.

Flexi-Farm Loan

Defer principal payments for up to one year to take advantage of opportunities or ease cash flow during adverse conditions.

Herd Start Loan

Take time after starting or expanding your livestock operation. Use your cash flow to grow your business.

1-2-3 Grow Loan

Manage your cash flow with interest-only payments until you get a return on your investment.

Opportunity Loan

Fund your agribusiness expansion with principal payment holidays for up to 12 months.

Payday Loan

Use your off-farm income to start or expand your farm business.

Performer Loan

Get rewarded with lower interest rates when your business achieves pre-set financial goals and ratios.

Plant Now – Pay Later Loan

Defer payments in your horticulture operation until your new plantings start to generate cash flow.

Spring Break Loan

Match your payment schedule to the forestry harvesting season.

Stop and Grow Loan

Defer principal payments at your woodlot as saplings grow into profits.

Transition Loan

Help the next generation purchase your property at retirement. Get the equity from your farm without risk.

Personal property

Buying equipment or livestock? Choose from these options:

Variable

Rate floats as interest rates rise or fall, plus lock in your rate, or prepay any amount, any time.

Closed

A low fixed rate for the term of the loan.

Open

Low fixed rate with option to prepay any amount, any time.

Real property

Perfect for those looking to purchase land or financing the construction of a new building.

Variable

Rate floats as interest rates rise or fall, plus option to prepay up to 10 per cent, any time.

Closed

A low fixed rate for the term of the loan.

Fixed

Fixed rate with option to prepay up to 10 per cent any time.

Jamie and Kelly Keiver run Carnival Farms in Riverside-Albert, N.B., and plan to continue doing what they're doing, just more of it.

The Keivers have 200 beef cows and nearly 200 feeders on 800 acres of land. Jamie says his greatest achievement is being able to do what he loves for a living with a great wife and three wonderful children. You can't argue with that.

1. Jamie
2. Kelly
3. Courtney
4. Samantha
5. Matthew

Operating environment

Monetary policy

The Canada-U.S. average exchange rate increased 1.7 per cent from April 3, 2006, to March 30, 2007. Although the Canadian dollar declined slightly at the end of 2006, it remains higher than historic levels. High exchange rates, combined with global oversupply of many agricultural commodities, resulted in downward pressure on agricultural commodity prices. The high value of the Canadian dollar combined with low agricultural commodity prices negatively affects Canada's agricultural trade balance, since Canada's agricultural exports are relatively more expensive for importing countries.

After seven consecutive rate hikes by the Bank of Canada that began in September 2005, the Bank has held rates steady at 4.50 per cent since June 2006.

International trade

The Doha Round of WTO was suspended in July 2006 and did not resume until February 2007. Progress continues to be slow. FCC is monitoring the discussions closely.

The softwood lumber agreement between Canada and the United States came into effect on October 12, 2006. The seven-year deal revoked U.S. countervailing and anti-dumping duty orders, and returned to Canadian exporters more than $5 billion in duties collected by the United States since 2002. As of December 14, 2006, about 98.9 per cent of the estimated $5 billion has been returned to Canadian lumber companies.

Farm revenue and expenses

Statistics Canada reports that in 2006, total farm cash receipts increased 0.5 per cent, while total market receipts (excluding government program payments) increased 1.9 per cent, compared to 2005. Total crop receipts increased 7.9 per cent, while total livestock receipts declined 2.5 per cent.

Prices of major farm inputs such as fertilizer, fuel, farm labour and chemicals were higher than they were in 2005. Higher energy prices drove the price of fertilizer and fuel upward while labour shortages, particularly in Western Canada, led to higher farm labour costs.

Farm debt

According to Statistics Canada as of December 31, 2005, farm debt outstanding rose 4.6 per cent to $51 billion, continuing the steady upswing since 1993. Major holders of farm debt were chartered banks (42.1 per cent), Farm Credit Canada (21.5 per cent), credit unions (16.8 per cent), private individuals (7.8 per cent), treasury branch (2.8 per cent), and other (9.0 per cent) including provincial government agencies (3.2 per cent) and machinery and supply companies (2.9 per cent).

Farmland values

The average value of farmland increased 2.5 per cent during the last six months of 2006, Canada's highest increase since 2002. This is higher than the 2.1 per cent increase in the first six months of 2006. Most provinces continue to see growth in farmland values. Increases are consistent with an upward trend since January 2000.

Beef

The cattle sector continued to recover from bovine spongiform encephalopathy (BSE). Increased exports to the United States and higher prices resulted in an increase to total market receipts for cattle and calves of 2.2 per cent in 2006 compared to 2005.

Despite a confirmed ninth case of BSE since 2003 (in February 2007), trade of cattle and beef under 30 months of age between Canada and the United States continues. The U.S. Department of Agriculture stated that they "do not expect this Canadian detection to impact our trade with Canada."

The U.S. has begun the process of allowing the import of Canadian cattle over 30 months of age, which will take several months to be approved.

Grain crops

Total crop market receipts for 2006 are up 7.9 per cent from 2005, excluding government support payments. This is largely due to a large crop of grains and oilseeds in 2005-06 marketed during 2006.

Statistics Canada's Farm Product Price Index for total crops decreased 1.1 per cent in 2006 compared to 2005. Crop prices rose dramatically in the third quarter of 2006 due to higher demand for biofuels combined with concerns over lower global production of oilseeds.

Dairy

Canada's dairy producers experienced some challenges in the past year. Increased imports of industrial milk products, combined with health trends such as the growth of soy and rice products, are on the radar.

In an effort to stabilize and reduce high quota prices and enhance the long-term sustainability of the supply management system for dairy producers, some provincial marketing boards have amended their quota policies. Some provincial dairy boards have implemented a transfer assessment, essentially a holdback of quota each time quota is sold in an arms-length transaction. The amount withheld varies from as low as five per cent to as high as 30 per cent on quota sold through the provincial quota exchange, effectively reducing the resale value to below the cost to purchase. This makes it difficult for lenders to provide loans for new entrants, as well as for producers who are expanding quite rapidly.

Ontario and Nova Scotia announced changes that will limit the terms of Letters of Direction to 10 years. A Letter of Direction is an agreement between the dairy producer, provincial marketing board and a lender that allows the lender to use a producer's Market Share Quota to secure a loan. Provincial dairy boards have not yet finalized the details of their quota policies.

Despite the Statistics Canada Farm Product Price Index for dairy products increasing 1.4 per cent from 2005 to 2006, dairy market receipts declined 0.2 per cent in 2006 compared to 2005 as productivity declined.

Pork

A strong Canadian dollar, along with disease in Ontario and Quebec, lowered revenues for hog producers. Prices rallied in the summer months and for a time were equal to the previous year's level. By fall, hog prices were about one to eight per cent lower than a year ago, and the Farm Product Price Index decreased 12.1 per cent from 2005 to 2006. Statistics Canada reports that 2006 market receipts for hogs decreased 13.6 per cent from 2005. In addition, feed prices increased dramatically at the end of 2006, contributing to losses.

Slaughter capacity uncertainty is another issue facing producers. Olymel, Quebec's largest pork producer, has been restructuring operations due to decreased profitability resulting from labour disputes and the strong Canadian dollar. Olymel also announced it would not go ahead with the proposed OlyWest (Olymel, Hytek and Big Sky Farms) hog processing plant in Winnipeg. Maple Leaf Foods has also put some plants up for sale and announced the closure of others. Some producers will ship hogs to processing facilities that are farther from their farms, and some live hogs may be shipped to the United States.

Poultry

Canadian demand for chicken remains strong, but foreign markets have declined. Due to concerns over avian influenza, Canada has adopted tighter bio-security and precautionary measures. Avian influenza has also reduced per capita consumption of poultry products, particularly in Europe. This decrease in demand has lowered international prices, and growth in domestic production has slowed.

Statistics Canada reports that market receipts for poultry and eggs declined 2.1 per cent from 2005 to 2006. The Farm Product Price Index in 2006 was 3.4 per cent lower than 2005. The index provides the prices for products relative to a base year while the farm cash receipts provide the revenues generated, two important metrics in determining the cause of a decline in market revenue.

Bio-security

The global threat of avian influenza, diseases such as anthrax and foot and mouth, and salmonella continue to impact producers. This year, FCC introduced new bio-security protocols to protect our customers.

Agriculture and Agri-Food policy

In early 2007, federal, provincial and territorial governments gathered input and advice through public consultations to develop the next generation of Agriculture and Agri-Food policy. This information from industry stakeholders and the Canadian public is intended to shape a new policy to keep the agriculture industry healthy and competitive for years to come.

Alternative fuels

Concerns with global oil supply and the rising costs of fuel have sparked growing interest in alternative fuels. In response, the federal government is continuing to work on a biofuels strategy. Three billion litres of ethanol or biodiesel will be required to meet Canada's five per cent biofuels target by 2010.

In July 2006, Agriculture and Agri-Food Minister Chuck Strahl announced $10 million in funding to support the development of business proposals and feasibility studies to support the expansion of biofuel production. In December 2006, the federal government announced an investment of $345 million to support bio-product research and development. In March 2007, the federal budget included a commitment of $2 billion in funding over seven years to achieve Canada's national biofuel targets.

Demographic shift

There is a demographic shift occurring in the agriculture industry. The average age of farm operators continues to increase – from 49.9 in 2001 to 52.0 in 2006. About 34.9 per cent of farms are owned by operators age 55 years or older, and most are likely to retire over the next five to 15 years. This will lead to a loss of expertise, and provide tremendous opportunity for the next generation of operators.

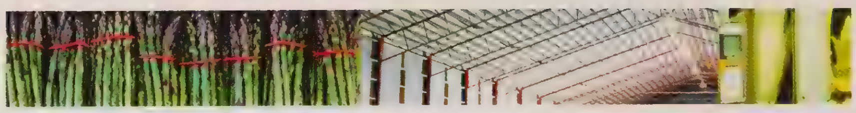
According to Agriculture and Agri-Food Canada, there are currently 55,000 single generation farms likely to be transferred outside of family. Over the next five years, the number of producers in Canada may be reduced by 25,000, leading to bigger and fewer farms. It is estimated that 80 per cent of agriculture production currently is derived from 20 per cent of the farms in Canada.

Shylo Kassian and Bev Badry showed their team spirit at a 2006 Western Sales Area conference in Canmore.

"I've seen a lot of change, and 99 per cent of the time it's good. Give it a chance."

– **Gary Martin**, FCC Senior Relationship Manager

Gary loves variety. From the customers he deals with to the activities and training he receives as an employee in our Moncton office, Gary is a positive force with customers and colleagues.



Balanced scorecard 2006-07

FCC uses the balanced scorecard framework to establish and monitor progress toward achieving our business strategy. The balanced scorecard outlines our strategic themes, objectives, measures, targets and initiatives in each of the following balanced scorecard perspectives: financial/shareholder, customer, internal capability and people (employees).

Our business strategy is characterized by four strategic themes. These themes are to strengthen market presence, enhance customer experience, optimize execution and performance, and sustain commitment to agriculture.

Strengthen market presence

2006-11 Strategic objectives	Measures	2006-07 Plan targets
Financial Income growth	Portfolio growth	4.64% [1]
	Non-interest revenue	$21.8 million [2]
	Net interest income (NII) margin	3.04%
Customer Understand business, financial, and relationship needs Attract customer and business relationships	New customer acquisitions – all channels Venture capital • Interest and fee income • Co-investment ratio • Capital invested	Measure performance against targets Target set at >0 • $2.8 million • 1.3:1 • $20.0 million
	Market share	22.4%
Internal capability Enhance market awareness and positioning Relationship selling, management of all FCC solutions Portfolio/risk management Consistent brand-marketing of FCC's full capabilities Strategic integrated planning	Time spent with customers and prospects for value-added activities	Using the new sales contact tool, benchmark customer, prospect and Centre of Influence (COI) contact volumes at area and district levels [3]

[1] Target was adjusted to reflect portfolio growth of loans receivable and its equivalent is 4.43% in Principal Not Due (PND).

[2] The 2006-07 non-interest revenue calculation was corrected and the previously published target of $24.2 million was revised.

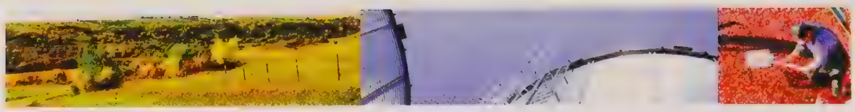
[3] Target was adjusted due to the implementation of the new sales contact tool. This tool will track both proactive and reactive sales calls with customers, prospects and centres of influence (COIs). Benchmarks will be established in 2006-07, so that specific targets can be established for future years.

2006-07 Initiatives	2006-07 Results
	Portfolio growth: 10.07%
	Non-interest revenue: $21.6 million
	Net interest income (NII) margin: 3.06%
Deliver a customer experience that results in loyal customers who recommend FCC Leverage new venture capital locations in order to better serve the agriculture industry and attract additional co-investment	Customer acquisitions: 1.1 (110 customers gained for every 100 who exited) Customer Experience Phase II was developed and focuses on enhancing customer touch points Venture Capital: Three locations (Montreal, Oakville and Calgary) retained and leveraged via Avrio Interest and fee income: $5.4 million Co-investment ratio: 1.6:1 Capital invested: $19.8 million
	Market share: 21.5% as at December 31, 2005
Redesign key processes to enable more time with customers Leverage integrated marketing communication (IMC) strategy to raise visibility and create awareness of FCC's spectrum of offerings and commitment to agriculture	Since April 1, 2006, 20,498 calls were completed. 15,663 calls were proactive and 4,835 were reactive calls. Post-sale customer management processes fully redesigned IMC strategy resulted in enhanced advertising, promotion and trade show presence

Enhance customer experience

2006-11 Strategic objectives	Measures	2006-07 Plan targets
Financial Return on equity and investment	Return on equity	12.28%
Customer Anticipate and offer tailored, preferred solutions across channels Build and expand relationships across channels	Customer experience index	Q1 Begin monitoring and reporting Baseline set at 53.47
	Total value penetration (TVP)	Increase national TVP score; Q1 set targets based on 2005-06 baseline Baseline set at 1.74
Internal capability Seamless, cross-channel integration to deliver sales, service Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management Monitor and respond to marketplace activity	Channel usage • # of unique website visitors per month • # of website pages visited per year • # of online registered borrowers • # of Customer Service Centre (CSC) customer contacts • $ disbursed of CSC direct full-service lending	 • 17,000 • 1.8 million • 12,000 • 80,000 • $175.0 million
	Customer value management	Benchmark
	Customer channel awareness, preferences and permissions	Benchmark

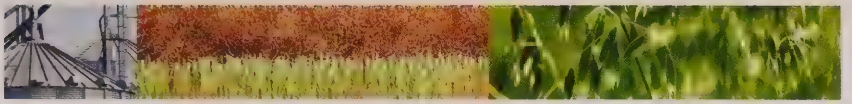
2006-07 Initiatives	2006-07 Results
	Return on equity : 15.0%
Monitor customer experience scoreboards, develop index, communicate results and implement action plans to enhance the customer experience	Customer experience index developed and target score achieved at 53.94. The goal is perfect scores, indicating customer delight. Action plans created to further improve the customer experience. Results focus on perfect "five out of five" scores for customer delight. The index is calculated using data gathered from customer post-loan, customer exit and annual report card surveys. The score is derived from questions pertaining to customer satisfaction, customer loyalty, advocacy, ease of doing business with FCC, care, overall value and problem resolution.
Create tools to support employees' ability to tailor full spectrum of FCC's offerings to customer needs	Tools created include employee ambassador kit, networking training and revised products and services brochure
Create/enhance products and services uniquely tailored to satisfying customer needs and exceeding their expectations	Programs launched include Accelerator Loan for young farmers, 4-H and AgExpert on Campus
	Total value penetration : 1.78
Execute on-line and CSC (call centre) strategies to provide customers with enhanced service via their channel of choice	Strategy executed with online disbursement process enhanced, FCC website refreshed and new Moncton CSC staff hired
Benchmark customer value	Measure removed due to lack of relevance and difficulty linking action items to results
Monitor marketplace activity	Strategic Intelligence unit established and enhanced reports produced
Implement foundational customer experience standards throughout FCC to ensure delivery of enhanced and consistent customer experience	Customer experience Phase I training complete and reinforced to employees
Redesign post-sale customer management processes to enhance the employee and customer experience	Process redesign complete • # of unique website visitors per month: 22,329 • # of website pages visited per year: 2.7 million • # of online registered borrowers: 12,216 • # of CSC customer contacts: 89,323 • $ disbursed of CSC direct full-service lending: $196.5 million Customer value management benchmark: A decision was made to remove this measure at the end of fiscal 2006-07
	Customer Service Centre awareness = 84.9% FCC website awareness = 94.8% E-mail addresses in Amigo (customer relationship management application) = 22,516 E-mail addresses for AgriSuccess Express = 24,179



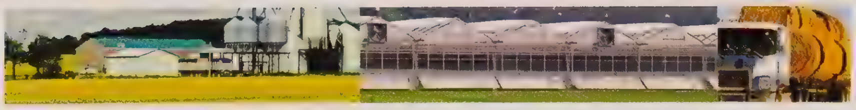
Optimize execution and performance

2006-11 Strategic objectives	Measures	2006-07 Plan targets
Financial Balance sheet optimization	Efficiency ratio	45.0% [4]
	Debt-to-equity	Under 10:1
	% of PND with arrears	6.00%
	Strategic credit risk management	Managed range between 51 and 70
Customer Continuously deliver consistent, efficient, quality service Retain customers and grow loyalty efficiently **Internal capability** Process innovation and continuous improvement Integrated value chain process redesign Agile, integrated IT architecture and solutions delivery IT platform reliability and performance Effective project execution, management and control Strategy execution, enterprise risk management Enterprise services delivery, management	Process improvements	Corporate business case parameters and approach to be reviewed and finalized
	Near term improvements	60% of approved near-term improvements implemented
	IT architecture capability	86% of key architectural framework elements incorporated
	User acceptance (performance, reliability and usability)	Measure performance against targets
	Project management maturity	Set baseline

[4] Target adjusted to top of range.



2006-07 Initiatives	2006-07 Results
	Efficiency ratio: 42.3%
Amend FCC's environmental policies and processes to address changes to the Canadian Environmental Assessment Act	Policies and processes amended
Continue implementation of Enterprise Records Management initiative	Implementation complete – continuous improvement now part of core operations
Develop enterprise-wide content management governance committee, approach, and implementation plan for content deployed through employee portal	Project postponed to 2007-08 due to resource availability
Internal Control Framework – implement framework to maintain and enhance controls through process and system design	Framework developed and implemented
Implement identity and access management solution to increase efficiency and safeguard customer data	Proof of concept completed, and management software purchased and implemented
BK Program – process redesign, technical infrastructure and application development to support the enhancement of the customer and employee experience	BK Program year one complete in accordance with project milestones
Enhance business platforms	E-business and Human Resources platforms upgraded, and Translation platform upgrade underway
Cascade strategic objectives from the corporate to the divisional level	Strategic themes and objectives incorporated into employee performance planning, enabling clear line of sight to corporate performance objectives and targets
Enhanced enterprise risk management, risk mitigation planning and status reporting	Enterprise risk management scanning process enhanced (further development of strategy deferred to 2007-08 due to resource availability)
Complete capacity planning installation for project portfolio management projects	Project plan to enhance project management complete – installation will occur in 2007-08
	Debt-to-equity: 8.5:1
	% of PND with arrears: 2.64%
	Strategic credit risk management: 56.5
	New and more stringent approach to business cases adopted, including qualitative elements.
	Approved near-term improvements implemented: 71%
	IT architecture capability: 86%
	At 49% this result is consistent with the previous year's score of 50% in that there is no statistically significant difference between the two measurements (i.e., the margin of error is greater than 1%).
	Project management maturity baseline established. Planning for a program of improvement initiatives is underway.



Sustain commitment to agriculture

2006-11 Strategic objectives	Measures	2006-07 Plan targets
Financial Investment in agriculture	% of profits invested in communities	1.40%
Customer Trusted partner and industry catalyst Build industry, stakeholder awareness, credibility and support	Corporate social responsibility (CSR) scorecard	Measure performance against targets
	Corporate reputation index	Conduct new corporate reputation survey
	Media favourability index	Score of 64
Internal capability Knowledge management leverage Industry investments and stakeholder relations		

People

2006-11 Strategic objectives	Measures	2006-07 Plan targets
Strategic enterprise leadership Customer and knowledge culture Define and enhance the employee experience Make it easy for employees to do business Aligned performance management Strategic competencies and capabilities	Engagement score	Minimum threshold 80%
	Employee experience	Benchmark
	Make it easy for employees to do business	Develop measure and set baseline

2006-07 Initiatives	2006-07 Results
Educate Canadians regarding agriculture including journalists, school-age children and urban residents	Agriculture 101 brochure shared with journalists
Invest in promoting FCC customer products on CanadianFarmersMarket.com	Media promotional campaign completed generating 3,887 contest entries
	% of profits invested in communities: 1.59% = $1,691,350
	Presentation of Corporate Social Responsibility statement and principles received Governance Committee approval. Some phase I initiatives implemented.
Grow producer knowledge of management practices via:	
• AgriSuccess seminars on topics including succession planning, human resource management, farm financial management and price risk management	85 AgriSuccess learning events delivered to 3,191 participants
• Advanced Farm Manager: comprehensive business management training for today's farm owners/managers	Three Advanced Farm Manager sessions delivered to 67 participants in Abbotsford, Drummondville and Woodstock
• Subscriptions to AgriSuccess Journal, highlighting agriculture news and management issues	FCC customers now receive AgriSuccess Journal and AgriSuccess Express
Deliver innovative programs for young farmers	Young farmer program developed (Accelerator Loan and 4-H recruitment campaign)
Continue community investment with an emphasis on farm safety and food issues (World Food Day, First Aid on the Farm, etc.)	Support provided to multiple programs, including World Food Day and Canadian Agricultural Safety Week
Continue enhanced support for rural communities with AgriSpirit capital giving program	Capital support distributed to successful AgriSpirit applicants
Develop bio-security protocols and enhanced awareness of bio-security management practices	Bio-security protocols developed and communicated to customers and employees
	Reputation Index methodology was developed and the research project is in progress. The findings will be known in Q1 2007-08
	Media favourability index score: 66
Leverage Community of Practice (CoP) knowledge to the benefit of customers by adding CoP knowledge to FCC website and inviting customers to select FCC events	Red meat and greenhouse research studies added to website, and customers participated in Pork, AgValue and Crops West CoP events
Conduct program to inform elected officials of FCC's role and offerings	All Members of Parliament received an FCC information package – personal contact made with 95 members

2006-07 Initiatives	2006-07 Results
Continue implementation of cultural transformation strategy, through rollout of Holding to Account program to all employees	Holding to Account program complete with very positive employee evaluations
Identify and develop future leaders through the Leadership Development program	New managers enrolled in Leadership Development program
Identify key drivers and create action plan to continuously improve employee engagement	Second phase of Horizon compensation and performance management project complete with job-specific competencies selected for all FCC roles
	Engagement score: 82%
Define the FCC employee experience and attendant development requirements	The employee experience index has been benchmarked and a new measure has been developed for 2007-08.
	HR Culture department established and employee value proposition developed
Create a brand ambassador program for employees	Brand ambassador program launched to all employees
Implement the transition plan for the redesign of the performance and competency program	Annual market review and revised job profiles complete
Develop and implement Employee Orientation program	Existing orientation practices enhanced and second phase of program underway
Deliver Field Development program and revise as necessary	Field Development program updated: new course in environmental assessment to be developed in 2007-08
	A measure has been developed and the baseline has been set to track progress regarding how FCC makes it easy for employees to do business

Management's Discussion and Analysis

Overview of the MD&A

FCC Management's Discussion and Analysis (MD&A) provides management's perspective on the corporation's performance in fiscal 2006-07 through key performance indicators, an outlook for 2007-08 and risk management activities. The MD&A is presented in six sections:

Vision: Visionary leaders and trusted partners in finance and management services tailored to agriculture – leveraging our people's specialized knowledge and passion to create an extraordinary customer experience.

Vision and strategy

In order to fulfil its vision, FCC must achieve financial success. It is important to generate a sufficient rate of return from operations to remain financially self-sustaining as well as fund growth and strategic initiatives. FCC must also have the capability to withstand the market fluctuations intrinsic to the agriculture industry while continuing to support its customers through all economic cycles. The corporation is also expanding its product offerings, which now extends beyond financial products to business services. These services offer specialized knowledge to FCC's customers. The corporation has a solid financial foundation, ensuring ongoing viability through sound financial and risk management practices.

Corporate measures

The following discussion outlines the key measures used to analyze financial success and performance against strategic objectives:

Portfolio growth: In order to generate a sufficient rate of return the corporation must grow its number one revenue-generating asset, its portfolio. There are a number of factors contributing to portfolio growth including net disbursements, loan maturities, loan renewals and prepayments. To assess FCC's performance and opportunities management primarily focuses on net disbursements, which is the largest contributor to portfolio growth.

Principal Not Due (PND) is the principal balance owing on loans. PND is used to assess the growth between business lines, geographic areas and enterprises as it represents the principal balance, excluding items such as arrears and interest accruals that are included within loans receivable. Portfolio growth performance is also assessed through the change in FCC's market share of the total farm debt outstanding.

Credit quality: In conjunction with portfolio growth, the credit quality of the portfolio is reviewed to determine the amount of allowance for credit losses that is required based on the risks within the portfolio and the industry. Loans in arrears and impaired loans are important indicators of risk within the portfolio. The level of allowance required determines the provision for credit losses, which is the expense charged to the income statement.

Efficiency and cost management: The net interest income remaining after deducting the provision for credit losses must cover administration expenses. Cost control performance is measured using the efficiency ratio, which is the percentage of each dollar of net interest income required to cover administration expenses.

Financial results: Key measures used to assess financial strength and success towards achieving the corporate vision include net interest income, net income, return on equity and debt-to-equity.

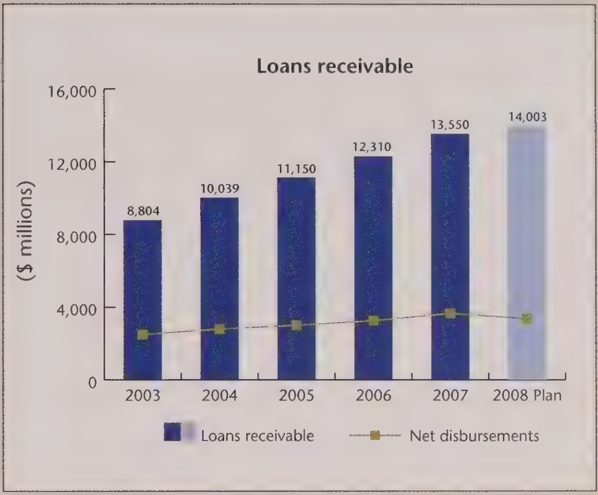
Caution regarding forward-looking statements

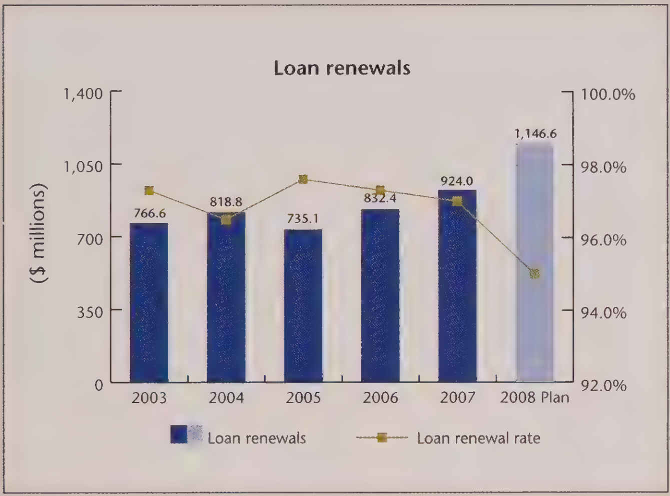
The MD&A includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary, and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including but not limited to interest rates. To manage within this volatility, management routinely reforecasts financial results, as early as the first quarter.

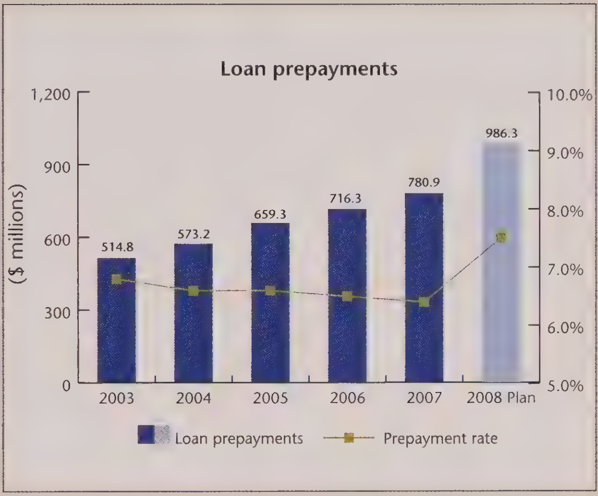
Portfolio growth

Lending activity

FCC's portfolio experienced growth for the 14th consecutive year. The 2006-07 growth rate was 10.1 per cent. Loans receivable grew from $12,310 million in 2005-06 to $13,550 million in 2006-07 and generated $872 million in interest income. The largest contributing factor to the growth in loans receivable was net disbursements of $3,715 million, $398 million higher than the previous year. Also, the prepayment rate was slightly lower, down 0.1 per cent from the previous year. The loan renewal rate was 97.0 per cent in 2006-07, 0.3 per cent lower than 2005-06.







	2008 Plan	2007	2007 Plan	2006
Loans receivable ($ millions)	14,003	**13,550**	12,482	12,310
Net disbursements ($ millions)	3,421	**3,715**	2,939	3,317
Renewal rate (per cent)	95.0	**97.0**	96.0	97.3
Prepayment rate (per cent)	7.5	**6.4**	7.5	6.5

The plan for the loans receivable balance in 2006-07 was $12,482 million. Actual results reached $13,550 million, representing an additional $1,068 million in portfolio growth. This was primarily due to higher net disbursements, a higher loan renewal rate and a lower prepayment rate than the plan.

The plan for the loans receivable balance in 2007-08 is $14,003 million. The assumptions around the 2007-08 plan were based on a lower loans receivable balance at year-end 2006-07.The planned slowdown in growth of loans receivable in 2007-08 versus historical experience is due to a number of factors including lower net disbursements, lower loan renewals and an increase in the prepayment rate.

Lines of business

AgProduction refers to customers who have loans with FCC including agricultural operations that produce raw commodities such as crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include but are not limited to vineyards, greenhouses, forestry, aquaculture and lifestyle customers.

AgValue refers to customers who have loans with FCC including suppliers and/or processors who are selling to, buying from and otherwise serving primary producers (equipment manufacturers, dealers, input providers, wholesalers, marketing firms, sawmills and processors).

Alliances are relationships established by contract between FCC and other agricultural or financial organizations designed to pool talents and offer expanded customer services.

In 2006-07, FCC disbursed $3.3 billion or 87.8 per cent to primary producers, who continue to be the focus as FCC expands its product offerings to meet industry demands.

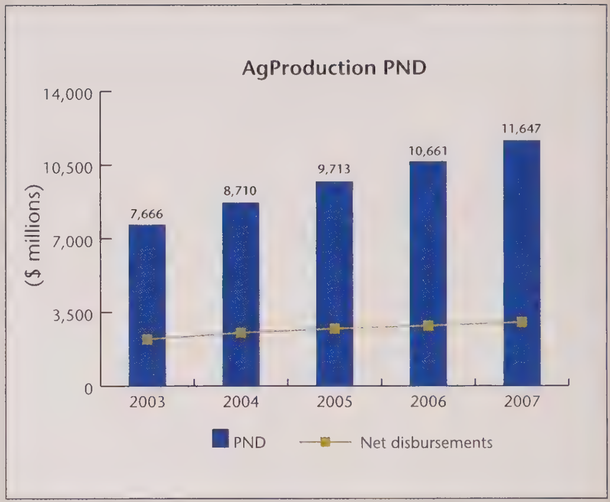
PND and net disbursements by line of business

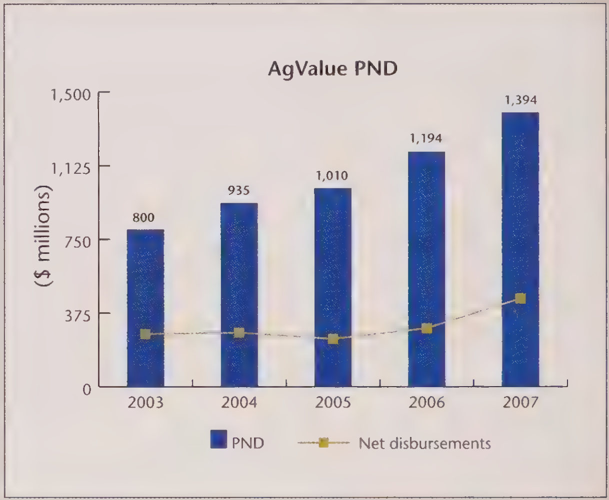
AgProduction

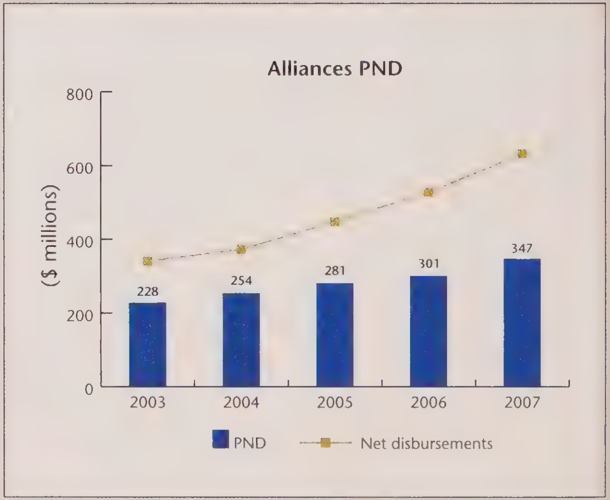
AgProduction PND grew by 9.2 per cent from $10,661 million in 2005-06 to $11,647 million in 2006-07. Net disbursements increased from $2,485 million in 2005-06 to $2,628 million in 2006-07. AgProduction net disbursements as a percentage of total net disbursements decreased from 74.9 per cent to 70.7 per cent due to the relative growth in the AgValue and Alliances business lines. All sales areas experienced increases in their respective portfolios; the largest was in the Western and Ontario areas. The cash crops, beef and other enterprises contributed to the largest increase in net disbursements for the AgProduction business line.

AgValue

AgValue PND grew by 16.8 per cent from $1,194 million in 2005-06 to $1,394 million in 2006-07. Net disbursements were up from $302 million in 2005-06 to $453 million in 2006-07, representing an increase of 50.0 per cent. All sales areas had increases in net disbursements with the exception of the Atlantic region. The largest increases were in the Western and Ontario areas. The value-added and cash crop enterprises accounted for the largest increase in net disbursements for the AgValue business line.







Alliances

Alliance PND grew by 15.3 per cent, from $301 million in 2005-06 to $347 million in 2006-07. Alliances net disbursements increased by 19.6 per cent from $530 million in 2005-06 to $634 million in 2006-07. Alliance lending largely supports input type loans that tend to be repaid in less than one year. This results in net disbursements exceeding the portfolio balance at year-end. The cash crop enterprise provided the largest increase in Alliánces lending. FCC continues to expand Alliance partnerships and product offerings to capitalize on the opportunities in the market.

PND and net disbursements by enterprise

FCC lends to all areas of agriculture across Canada and groups them into seven major enterprises. By diversifying the portfolio between these different enterprises, the impact of enterprise-specific issues and risks are minimized.

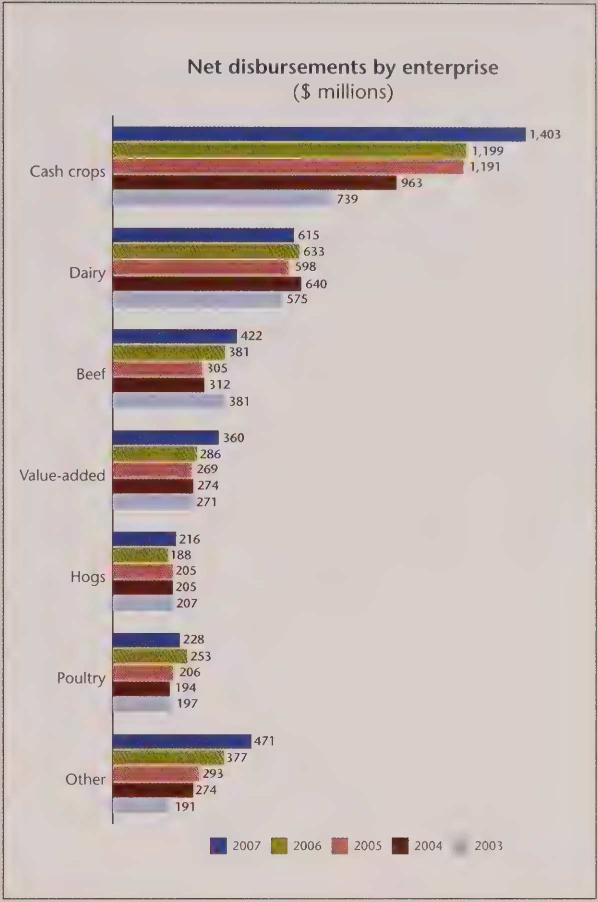
The total PND of the two major agriculture enterprises within the portfolio, cash crops and dairy, has decreased in 2006-07 to 55.9 per cent from 56.6 per cent in 2005-06. The total PND in poultry and other enterprises increased by 0.1 per cent and 1.2 per cent respectively. Beef and hogs decreased slightly by 0.2 per cent and 0.4 per cent respectively. The proportion of the portfolio represented by the value-added enterprise remained unchanged.

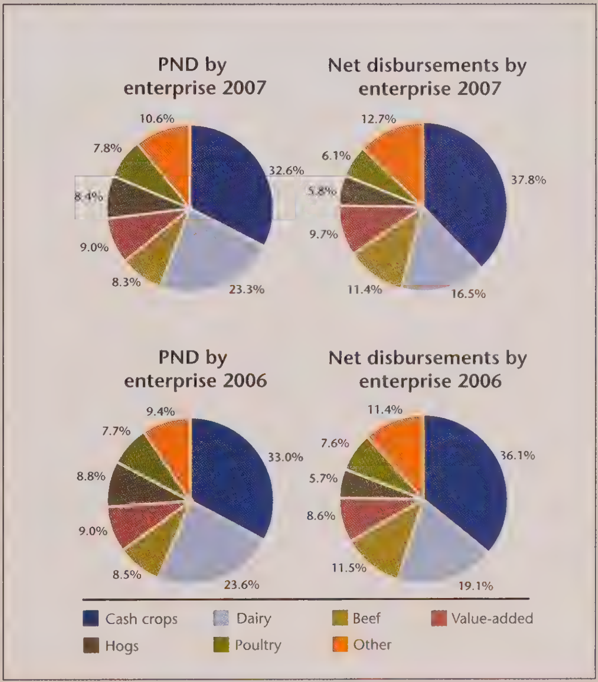
As a percentage of total net disbursements, the cash crops enterprise increased by the largest amount at 1.7 per cent, followed by the other, value-added and hog enterprises at 1.3 per cent, 1.1 per cent and 0.1 per cent respectively. Dairy, poultry and beef decreased by 2.6 per cent, 1.5 per cent and 0.1 per cent respectively. The largest increases in net disbursements from the prior year were in value-added, other, cash crops and hogs with 25.9 per cent, 24.9 per cent, 17.0 per cent and 14.9 per cent respectively.

PND and net disbursements by geographic area

FCC promotes portfolio diversification by geographic area by maintaining a strong and consistent presence throughout rural Canada. The corporation has offices in over 100 rural communities from coast to coast.

All areas across Canada experienced PND growth in 2006-07 except the Atlantic region. The largest PND growth was in the Western area at 18.1 per cent. This was followed by growth in the Quebec, Prairie and Ontario areas with 9.2 per cent, 8.4 per cent and 7.7 per cent respectively. The Atlantic area decreased by 1.3 per cent.

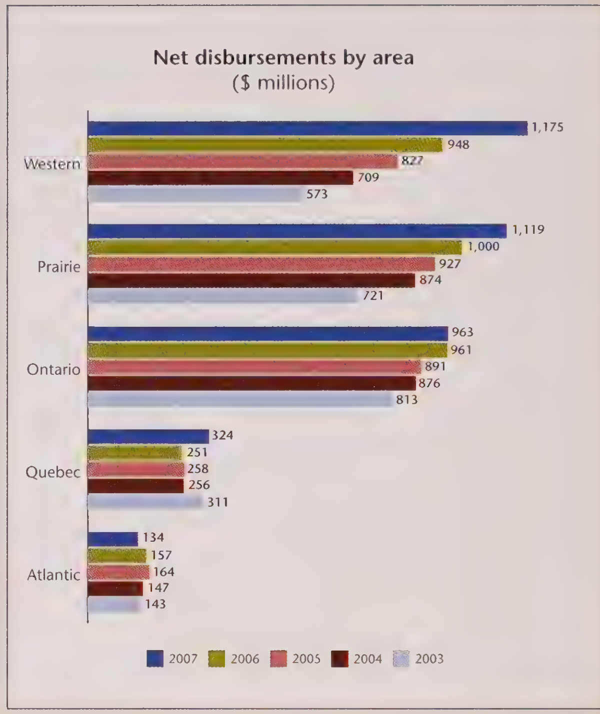


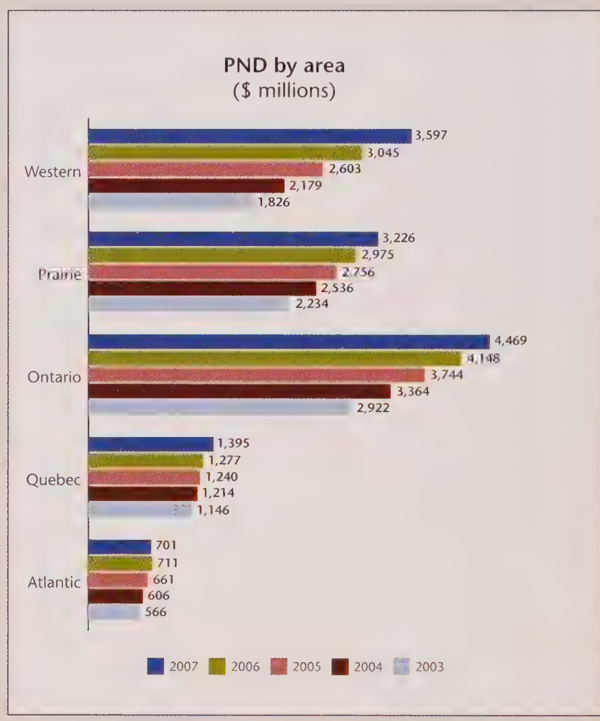


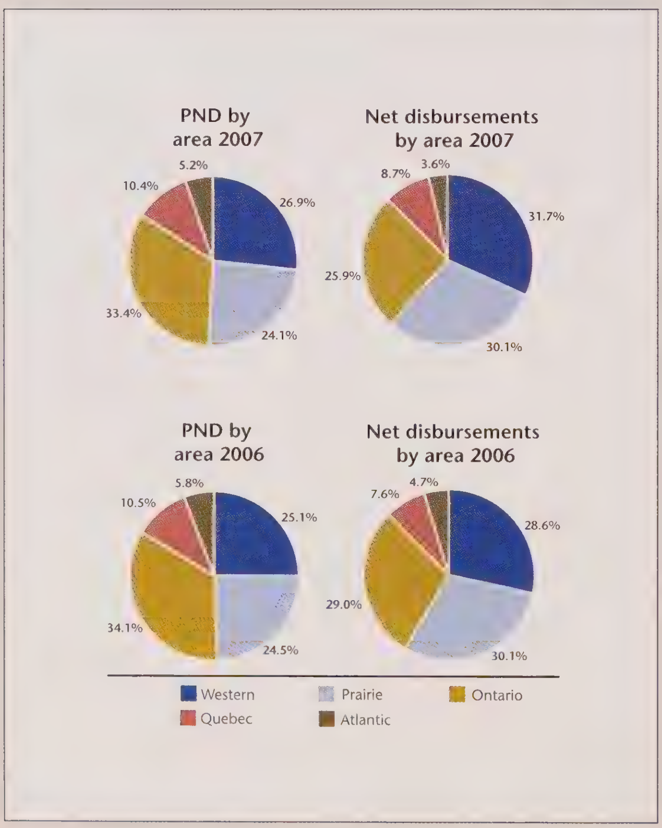
As a proportion of total PND the Western, Prairie and Ontario areas continue to comprise the largest portion of the total portfolio in terms of size. The Western area increased the most, from 25.1 per cent in 2005-06 to 26.9 per cent in 2006-07. The Quebec area remained at a similar level as the prior year, while the Prairie, Ontario and Atlantic sales areas decreased from 24.5 per cent, 34.1 per cent and 5.8 per cent to 24.1 per cent, 33.4 per cent and 5.2 per cent respectively.

Net disbursements increased over the previous year in all areas except Atlantic. The increase in net disbursements for the Western, Prairie, Quebec and Ontario areas were $227 million, $119 million, $73 million and $2 million respectively. The largest increase in the Western and Prairie areas was in the cash crops enterprise. The largest increase in the Quebec area was in the poultry enterprise.

Net disbursements for the Western and Quebec areas increased as a proportion of total net disbursements, from 28.6 per cent and 7.6 per cent in 2005-06 to 31.7 per cent and 8.7 per cent respectively in 2006-07. The Prairie area remained flat to the prior year and the Ontario and Atlantic areas experienced decreases. The Ontario area experienced the largest decrease, from 29.0 per cent in 2005-06 to 25.9 per cent in 2006-07.







Market share

FCC's commitment to the Canadian agriculture marketplace is demonstrated not only by growth in its own portfolio, but through its improving share of the farm debt market. Statistics Canada indicates that farm debt outstanding increased to $51.0 billion at the end of 2005. This represents an increase of $2.2 billion over the previous year and $9.9 billion over the past five years. FCC's market share as of December 31, 2005, was 21.5 per cent, and was only surpassed by all of the chartered banks combined at 42.1 per cent. FCC had the highest increase in market share at 1.0 per cent, followed by other at 0.3 per cent and credit unions at 0.2 per cent. In the past five years, FCC's market share has improved by 3.2 per cent.

Total farm debt outstanding as at December 31 (per cent)

	2005	2004	2003	2002	2001
Chartered banks	42.1	43.5	44.4	44.2	45.2
Farm Credit Canada	21.5	20.5	19.1	19.5	18.3
Credit unions	16.8	16.6	16.4	15.7	15.5
Treasury branch	2.8	2.9	3.2	3.1	3.2
Private individuals	7.8	7.8	7.5	8.7	7.6
Other	9.0	8.7	9.4	8.8	10.2
Total farm debt outstanding ($ millions)	50,956.8	48,737.4	46,663.7	44,497.1	41,060.0

* All figures back to 2004 have been updated according to Statistics Canada data as of June 2006. Figures are updated on a semi-annual basis for all categories by Statistics Canada.

Credit quality

The allowance for credit losses adjusts the value of loans receivable to reflect their estimated realizable value. Management uses a number of indicators to assess the appropriate level of allowance for credit losses required, including loans in arrears and impaired loans. In assessing their estimated realizable value, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. The allowance for credit losses is broken down into two components:

Specific allowance – provides for probable losses on specific loans that have become impaired. Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.

General allowance – provides for management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. It considers specific events to identify loans that have shown some deterioration in credit quality. The general allowance also represents management's best estimate of the probable unidentified losses in the portfolio. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends. This allows for probable credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans.

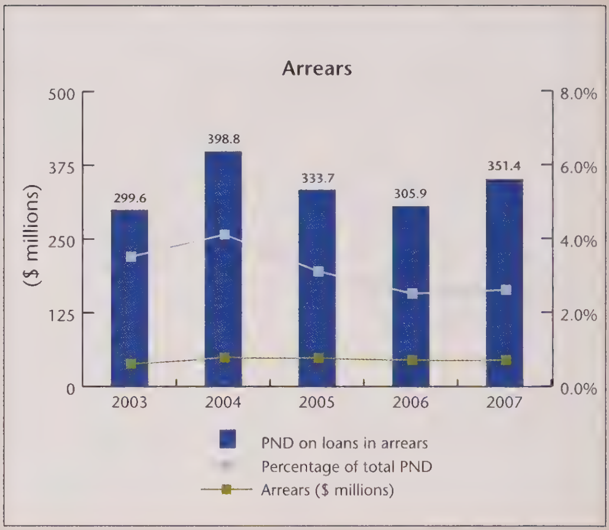
Once the appropriate level of allowance is determined, the necessary amount of provision for credit losses is charged to the income statement to bring the allowance to the desired balance.

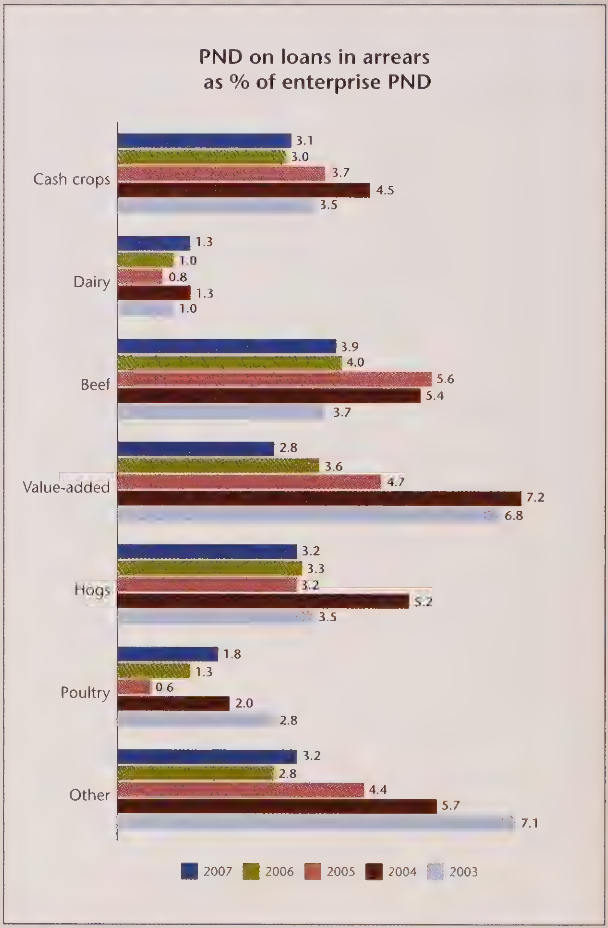
Loans in arrears

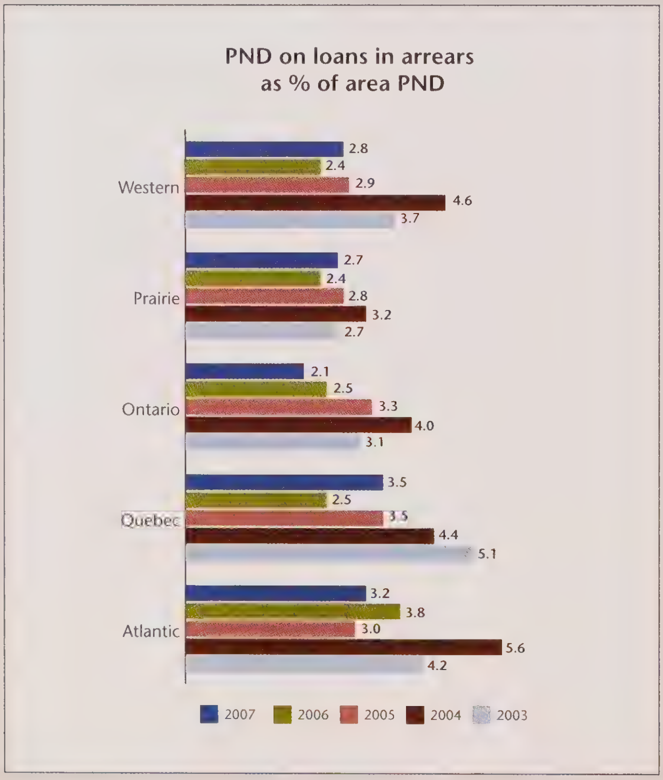
In 2006-07, arrears remained at the same level as 2005-06 at $36.4 million. PND on loans in arrears increased to $351.4 million from $305.9 million. PND on loans in arrears as a percentage of total PND increased 0.1 per cent to 2.6 per cent.

The arrears levels across Canada increased in the cash crops, dairy, poultry and other enterprises and decreased in beef, value-added and hogs. The relatively low level of PND in arrears as a percentage of total PND of 2.6 per cent in 2006-07 reflects the effective mitigation of risk through portfolio diversification. The number of loans in arrears has increased slightly and is compounded by a slight increase in the average principal balance of loans in arrears.

A number of factors within the agriculture market continue to impact the portfolio. These include but are not limited to flat or negative revenue growth in the agriculture industry and significant increases in production costs. FCC continues to provide customer support strategies that serve to work with its borrowers through times of difficulty in their specific enterprises.

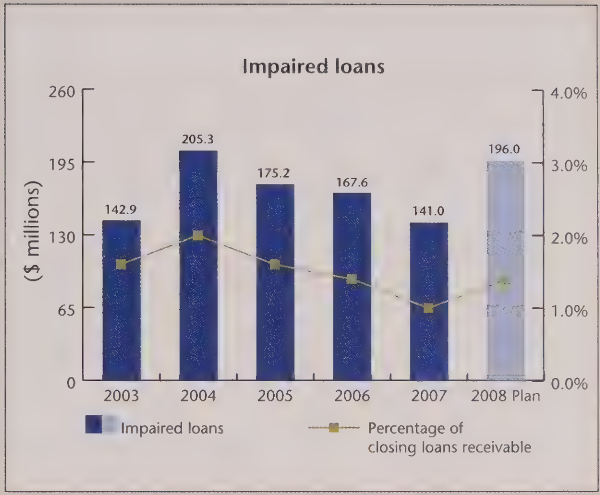






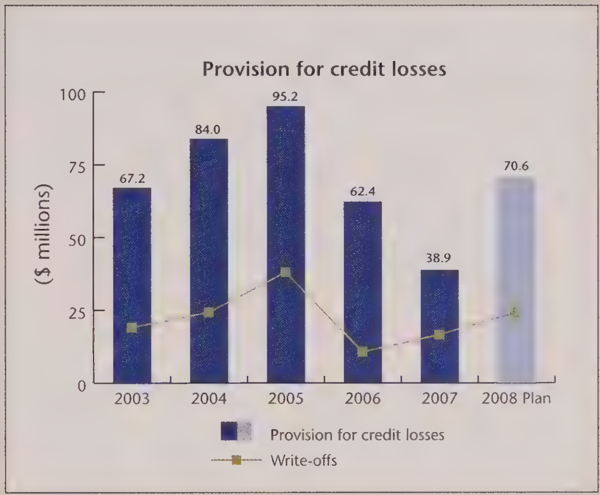
Impaired loans

Impaired loan balances at the end of 2006-07 totalled $141.0 million, representing a decrease of $26.6 million from $167.6 million in the previous year. Impaired loans as a percentage of closing loans receivable decreased to 1.0 per cent from 1.4 per cent in 2005-06. FCC continually monitors its portfolio and the industry to identify potential for developing proactive solutions to help customers through difficult times.



Provision for credit losses

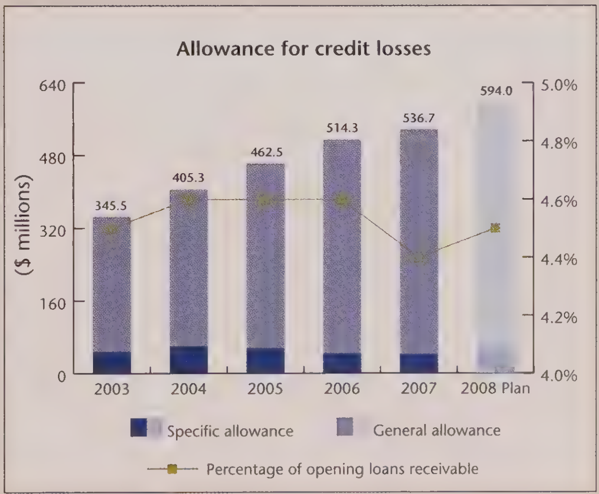
The provision for credit losses decreased by $23.5 million to $38.9 million in 2006-07, down from $62.4 million in 2005-06 due to the low level of arrears and impaired loans. The health of the portfolio in 2006-07 relative to fiscal 2005-06 has strengthened resulting in a lower required allowance for credit losses as a percentage of opening loans receivable, thereby lowering the required provision for credit losses.



Allowance for credit losses

Due to growth in the portfolio, the allowance for credit losses increased by 4.4 per cent to $536.7 million, up from $514.3 million in 2005-06. The allowance as a percentage of opening loans receivable decreased from 4.6 per cent in 2005-06 to 4.4 per cent in 2006-07.

($ millions)	2008 Plan	**2007**	2007 Plan	2006
Arrears	56.7	**36.4**	87.2	36.4
Impaired loans	196.0	**141.0**	212.2	167.6
Provision for credit losses	70.6	**38.9**	46.5	62.4
Allowance for credit losses	594.0	**536.7**	513.9	514.3

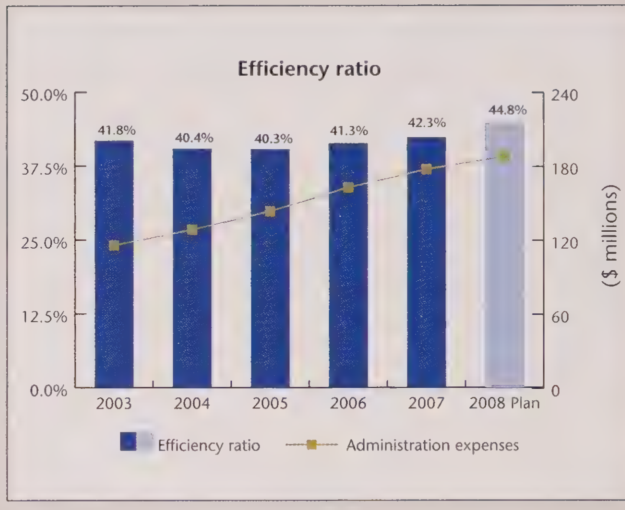


The arrears balance in 2006-07 was $50.8 million below plan, and the impaired loans balance was $71.2 million below plan. Provision for credit losses was $7.6 million below plan reflecting the improved portfolio strength. The allowance for credit losses was $22.8 million higher due to the larger growth in the loan portfolio in 2006-07 relative to the plan. The outlook for 2007-08 is an increase in the level of allowance for credit losses and provision for credit losses. Most of the increase in the allowance for credit losses will be in the general allowance portion due to the portfolio growth and increased level of arrears expected for 2007-08.

Efficiency and cost management

Efficiency ratio

The efficiency ratio measures the percentage of each dollar earned in net interest income that is spent in the operation of the business. A low efficiency ratio indicates an efficient use of resources. In 2006-07, FCC's efficiency ratio increased to 42.3 per cent. Net interest income grew by 6.7 per cent and administration expenses grew by 9.0 per cent, resulting in an increase in the efficiency ratio. Personnel expenses, specifically salaries, experienced the highest increase from 2005-06 to 2006-07 mainly due to the addition of 88 full-time equivalent employees to support continuing portfolio growth and the achievement of strategic initiatives.



	2008 Plan	2007	2007 Plan	2006
Administration expenses ($ millions)	188.4	**177.7**	173.3	163.0
Efficiency ratio (per cent)	44.8	**42.3**	44.8	41.3

Administration expenses were $4.4 million higher than plan in 2006-07; however, the efficiency ratio was 2.5 per cent lower. The majority of the increase compared to plan was due to increased salary expenses. The improved efficiency ratio was reflective of the higher actual portfolio growth in 2006-07 versus plan and a more efficient use of resources to support that growth. However, the efficiency ratio is expected to increase for the 2007-08 plan. Increases in administration expenses are necessary for investment in the strategic initiatives and infrastructure to support continued growth and success.

Financial results

Net interest income

Net interest income is the difference between the interest earned on assets and interest expense on borrowings. In 2006-07, net interest income increased to $414.6 million, a 6.7 per cent increase over the previous year. The major factor contributing to the increase is portfolio volume offset by a lower net interest margin, which is net interest income expressed as a percentage of average total assets. In 2006-07, the portfolio grew by $1.2 billion or 10.1 per cent over the previous year, which contributed $33.7 million more in net interest income. The net interest margin of 3.06 per cent is lower than the 2005-06 level of 3.21 per cent. The decrease in margin is primarily due to lower actual margins on fixed and variable rate assets relative to fiscal 2005-06. The lower net interest margin in 2006-07 reduced net interest income from 2005-06 by $7.5 million.

The net interest margin is intended to cover credit risks expressed through the provision for credit losses and administration expenses, as well as yield a sufficient return to enable the corporation to reinvest into future growth and viability.

Net interest margin 2007	**Average daily balance**	**Rate**
Earning assets:	**($ millions)**	
Fixed loan principal balance	5,313.9	6.55%
Variable loan principal balance	7,507.4	6.76%
Investments	838.7	4.22%
Venture capital investments	40.9	12.26%
Total earning assets	13,700.9	6.74%
Total interest-bearing liabilities	12,158.6	4.09%
Total interest rate spread		2.65%
Impact of total capitalization	1,542.3	0.41%
Net interest margin		3.06%

The following table outlines the historical year-over-year increases to net interest income and the amount of change that is due to changes in portfolio volume and changes in the net interest margin.

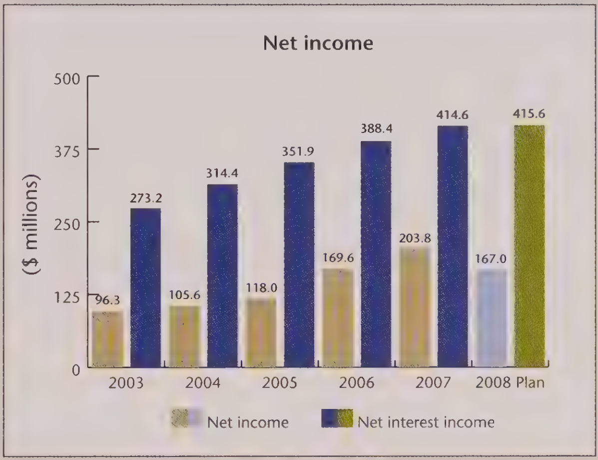
Net interest income and margin

($ millions)	2008 Plan	**2007**	2006	2005	2004	2003
Net interest income	415.6	**414.6**	388.4	351.9	314.4	273.2
Average total assets	14,089.9	**13,530.6**	12,100.7	10,940.8	9,739.1	8,563.3
Net interest margin (per cent)	2.95	**3.06**	3.21	3.22	3.23	3.19
Year-over-year change in net interest income due to:						
Increase in volume	16.2	**33.7**	30.8	31.2	27.6	26.3
Changes in margin	(15.2)	**(7.5)**	5.7	6.3	13.6	42.0
Total change to net interest income	1.0	**26.2**	36.5	37.5	41.2	68.3

Net income

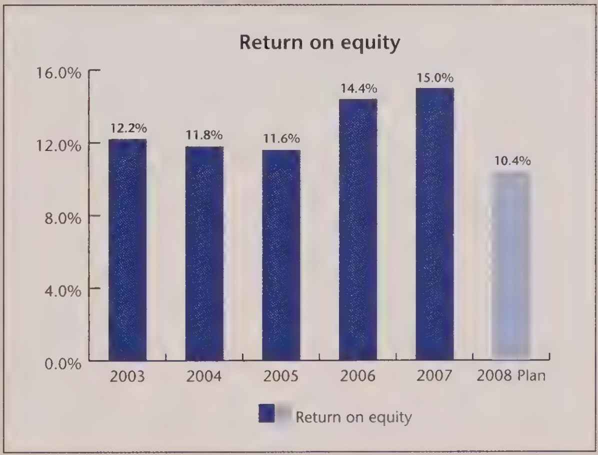
Net income is composed of net interest income plus other income less the provision for credit losses and administration expenses.

Net income in 2006-07 increased to $203.8 million, an increase of $34.2 million from the previous year. Higher net interest income, primarily due to the growth in the portfolio, and a lower provision for credit losses, is offset by lower other income and an increase in administration expenses. FCC is a self-sustaining entity and therefore reinvests its earnings back into agriculture through financing portfolio growth, new product development and business services that support the agriculture industry.



Return on equity

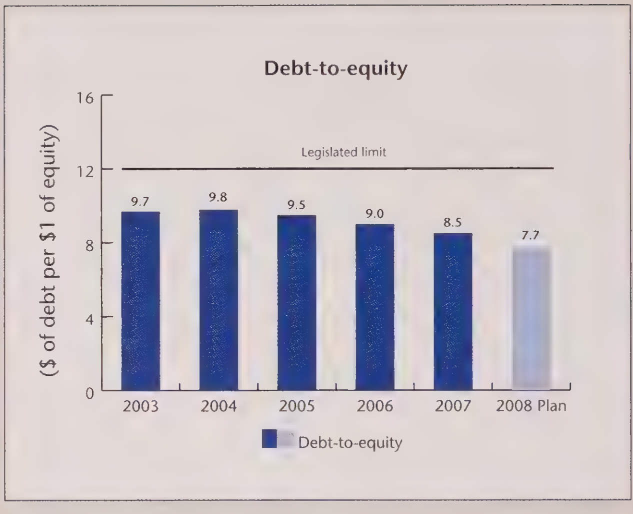
Return on equity is used to evaluate financial performance, viability and the corporation's ability to fund future growth and strategic initiatives. Return on equity increased in 2006-07 to 15.0 per cent from 14.4 per cent in 2005-06. A lower provision for credit losses and strong portfolio growth were slightly offset by an increased efficiency ratio.



Debt-to-equity

Debt-to-equity is the amount of debt the corporation has outstanding in relation to each dollar of equity. It is also a measure of risk as the more a corporation borrows against a single dollar of equity, the greater its risk. FCC's legislated debt-to-equity limit is 12 to 1.

Debt-to-equity improved from 9.0:1 in 2005-06 to 8.5:1 in 2006-07. The decrease is due to the growth in net income and retained earnings from 2005-06. When the growth in equity exceeds portfolio growth, the debt-to-equity ratio is reduced due to the reduced requirement for borrowed funds.



	2008 Plan	2007	2007 Plan	2006
Net interest income ($ millions)	415.6	**414.6**	385.2	388.4
New lending margin (per cent)	2.47	**2.60**	2.53	2.60
Net interest margin (per cent)	2.95	**3.06**	3.04	3.21
Net income ($ millions)	167.0	**203.8**	166.8	169.6
Return on equity (per cent)	10.4	**15.0**	12.3	14.4
Debt-to-equity ($ of debt per $1 equity)	7.7	**8.5**	7.8	9.0

In 2006-07, net interest income was $29.4 million above plan due to portfolio growth exceeding plan and higher than planned margin levels. Net income exceeded plan by $37.0 million due to the increase in net interest income and lower provision for credit losses, offset by higher administration expenses and lower other income. The resulting return on equity ratio was 2.7 per cent above plan. Debt-to-equity was 0.7 higher than plan due to the higher than planned portfolio growth levels.

Net interest income is expected to increase in 2007-08 by $1.0 million from 2006-07, due to higher lending volumes partially offset by lower lending margins. Net income is expected to decrease to $167.0 million in 2007-08 due to increases in provision for credit losses and administration expenses, and lower other income. Return on equity is expected to decrease due to the increases in provision for credit losses and the increased administration expenses. The increases in administration expenses and in the efficiency ratio are due to investment in the strategic initiatives and infrastructure necessary to support continued growth and success. The debt-to-equity ratio is expected to drop in 2007-08. Slower expected growth will result in equity growing at a higher rate than the portfolio reducing the borrowing requirements per dollar of equity.

Funding activity

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program
- Domestic Medium and Long-Term Note (MTN) Program (FCC bonds)
- Euro Commercial Paper Program
- Euro Medium-Term Note (EMTN) Program

Short-term funding

Short-term funding consists of borrowings with a term to maturity of less than one year. This includes the Domestic and Euro Commercial Paper programs. The outstanding short-term borrowings at March 31, 2007, were $5.1 billion, compared to $5.7 billion at March 31, 2006. The slight decrease in short-term borrowings supports a corresponding decrease in variable-rate mortgages in the asset portfolio.

Medium and long-term funding

Medium and long-term funding consists of all borrowings with a term to maturity of more than one year. This includes all MTN and EMTN debt with more than one year to maturity. During 2006-07, FCC borrowed a total of $3.0 billion in medium and long-term funds, up from $2.5 billion in 2005-06. The increase in MTN issuance was due to strong demand from institutional investors. FCC issued $65.5 million of EMTN debt in 2006-07, after renewing the program in February 2006.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2006-07, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings are detailed below as of March 31, 2007.

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

FCC continually pursues opportunities to diversify funding sources and access cost-effective funds from the capital market. Such initiatives are established pursuant to and in accordance with the Minister of Finance's Guidelines for Market Borrowings by Crown Corporations.

On March 19, 2007, the Finance Minister delivered the federal budget for fiscal 2007-08 and announced the federal government's intention to consolidate the Crown borrowings of FCC, Business Development Bank of Canada and Canadian Mortgage and Housing Corporation by providing direct lending to these Crown corporations beginning in 2008. While the specific framework under which the consolidated borrowing would operate is uncertain, FCC management believes the impact on FCC's borrowing costs will not be significant.

Capitalization

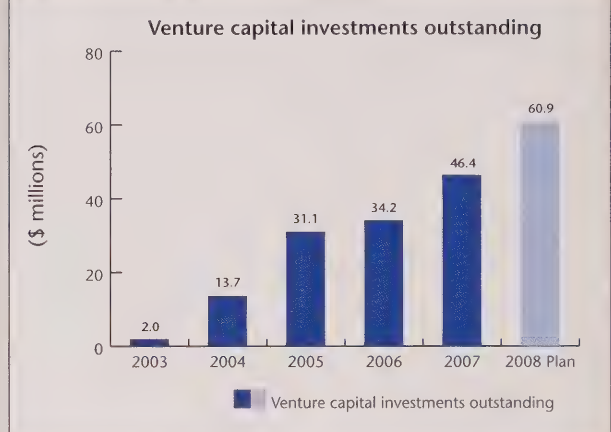
FCC's gross assets are $14,370.9 million, which are supported by equity and allowances of $1,998.8 million. At this level of capitalization, 13.91 per cent (2005-06 – 13.58 per cent) of assets do not require external debt financing.

($ millions)	2008 Plan	**2007**	2006	2005	2004	2003
Equity:						
Capital	547.7	**547.7**	547.7	532.7	507.7	507.7
Retained earnings	1,093.0	**914.4**	716.1	551.8	437.5	331.9
Subtotal	1,640.7	**1,462.1**	1,263.8	1,084.5	945.2	839.6
Allowance for credit losses	594.0	**536.7**	514.3	462.5	405.3	345.5
Total capitalization	2,234.7	**1,998.8**	1,778.1	1,547.0	1,350.5	1,185.1
Gross assets not requiring debt financing (per cent)	14.98	**13.91**	13.58	13.04	12.73	12.71

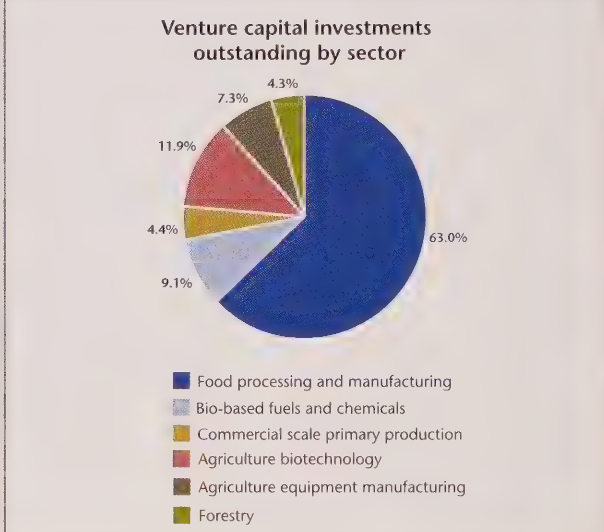
Business services

FCC Ventures

FCC Ventures, Farm Credit Canada's venture capital division, was formed in 2002. As a major player in Canadian agriculture, FCC has been very successful attracting and partnering with other venture capitalists to provide even greater funding to this sector. Over the past five years FCC Ventures, together with its funding partners, has provided over $150 million in funding to the agriculture industry across Canada. At March 31, 2007, for every $1 invested by FCC third-party co-investors have invested an additional $1.60.



During 2006-07, the corporation leveraged this success by becoming the lead limited partner in Canada's first industrial life sciences venture capital fund, called Avrio Ventures Limited Partnership. Coincident with the creation of the new venture capital fund, the corporation entered into a contract with Avrio Investments Inc. for the ongoing management of FCC Ventures' existing investment portfolio. This change helps to ensure that FCC Ventures retains the venture capital expertise required to effectively manage the investment portfolio. The new fund intends to capitalize on the convergence of life sciences and industrial technology and will focus on Canadian commercialization to growth stage companies in three emerging sectors: industrial bio-products, food technology and nutraceutical ingredients. Avrio Ventures is well represented across Canada with offices located in Calgary, Alberta, Oakville, Ontario and Montreal, Quebec.



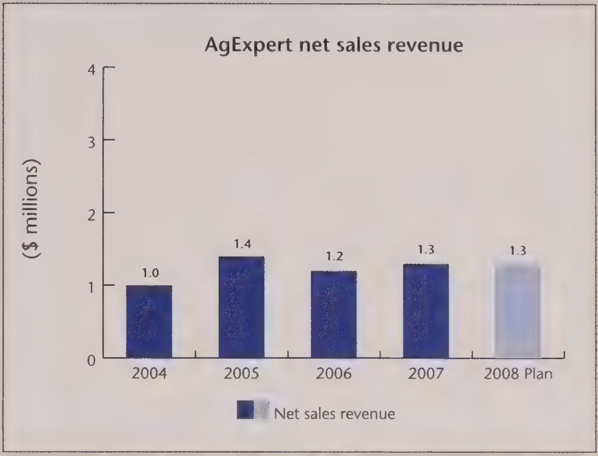
The FCC Ventures portfolio reached $46.4 million as at March 31, 2007, with FCC Ventures investing $19.8 million during the year. In 2006-07, FCC Ventures earned $5.4 million in income from its investments. In addition venture capital investments of $5.0 million were exited, creating a total gain of $1.6 million. One investment was written off, resulting in a loss of $1.0 million. Co-investment partners contributed an additional $21.2 million.

The largest portion of FCC Ventures' portfolio is in the food processing and manufacturing sector. FCC Ventures continues to support growth in the agriculture market through its investments and by raising awareness of potential investment opportunities within the venture capital and financial markets.

	2008 Plan	**2007**	2007 Plan	2006
Investments – total capital outstanding	60.9	**46.4**	57.5	34.2
Co-investment ratio ($'s co-invested per FCC $)	1.5	**1.6**	1.3	1.9

The 2006-07 plan for new venture capital investments was $20.0 million. Actual investments were $19.8 million, $0.2 million below plan. The total capital outstanding at the end of 2006-07 was $46.4 million, or $11.1 million below plan. The lower than anticipated investment balance was primarily due to the one exit and one write-off that occurred during the year. At March 31, 2007, the ratio of co-investment dollars per FCC Ventures' dollars invested was 1.6 to 1. This is above the plan of 1.3, but lower than the 2005-06 level of 1.9. The outlook for 2007-08 is total capital outstanding of $60.9 million, including direct investments and those made through the Avrio Ventures fund.

AgExpert



FCC's AgExpert division publishes Canada's leading farm management software, offering the AgExpert Analyst accounting software and AgExpert Field Manager PRO programs and related support to primary producers. In the past year, FCC continued to enhance AgExpert management software for application across Canadian agriculture and strengthen the connection to the FCC brand. New versions of the accounting software (AgExpert Analyst 2007), complete new field management software (AgExpert Field Manager PRO) and support services generated $1.3 million in net sales revenue in 2006-07. This is an 8.3 per cent increase in net sales revenue from the previous year.

Key performance drivers of AgExpert include the product's ongoing relevance to agriculture-specific market requirements, including compliance programs such as the Canadian Agriculture Income Stabilization (CAIS) program and emerging food safety production initiatives. Expanded product usage by key industry influencers and stakeholders contributed to growth in the current year and will enable future market share growth and revenue increases.

	2008 Plan	**2007**	2007 Plan	2006
Net sales revenue ($ millions)	1.3	**1.3**	1.5	1.2

* In 2006-07 a change was made to what is included in Net Sales Revenue; the Plan numbers have been recalculated for comparison purposes in the above table. They were previously published as $2.1 million for the 2007 Plan and $2.0 million for the 2008 Plan.

Net sales revenue was below plan for the past year by $0.2 million. The plan for 2007-08 is net sales revenue of $1.3 million. This level of sales is expected as AgExpert products continue to leverage off of recognition within the marketplace and the strength of the FCC brand and distribution network.

AgriSuccess

AgriSuccess is the information and learning program offered in support of FCC's commitment to Canadian agriculture. Its mandate is to advance management practices that lead to success in Canadian agriculture. Today's AgProduction and AgValue operators are sophisticated and need more advanced skills to manage their operations. AgriSuccess continued to diversify its delivery formats and reached more producers in 2006-07.

In 2006-07, the AgriSuccess learning program had a foundation of nine different management workshops. Topics covered were in the areas of human resource management (recruiting and retaining employees), financial management (management accounting systems and ratio analysis), succession planning, estate planning, vision/goal setting and commodity marketing management. A new workshop was introduced in 2006-07 in the area of value chain management. As of January 2007, to recognize its loan customers and AgExpert Support customers, the registration fees to those two customer groups were waived. Non-customers continue to pay a registration fee.

Advanced Farm Manager is an intensive multi-day program that covers all aspects of strategic business planning and was delivered in three provinces this year.

AgriSuccess extended its reach by introducing a new learning format this year, the AgriSuccess Forums. The forums focused on learning and networking for the several hundred attendees at each one. The forum theme was "Winning in Agriculture," with multiple speakers presenting in a half-day, high energy conference format. The positive format and accompanying learnings were extremely well received by those in attendance. AgriSuccess's reach was further extended this year with the introduction of an AgriSuccess speaker sponsorship program to bring high-quality speakers to industry events.

The information programs of AgriSuccess include the AgriSuccess Express and AgriSuccess Journal. These high-quality publications are offered through subscription to customers and to other producers at no charge. Both publications are written and edited by professional agriculture journalists with guidance from FCC's editorial board. The Express brings the top 10 breaking agriculture news stories electronically to subscribers' inboxes weekly. The Journal, a bi-monthly colour magazine, is dedicated to helping producers advance their management practices by providing practical information, real-life examples and innovative ideas that foster personal solutions. This was the Journal's third year of publication and the editorial board increased the magazine's length from 16 to 20 pages this year. The Journal subscription list was expanded to include all FCC loan customers, beginning with the March/April 2007 edition. As of March 2007, all FCC customers with a valid e-mail address were included in the AgriSuccess Express subscription list.

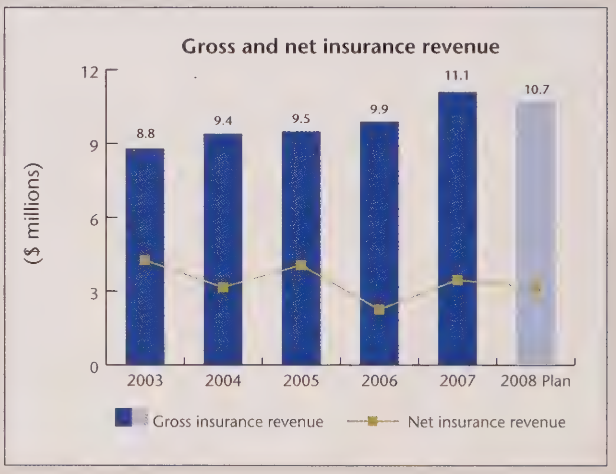
	2008 Objectives	**2007**	2007 Objectives	2006
AgriSuccess participants	3,300	**3,191**	3,000	3,169
AgriSuccess Express distribution	28,000	**24,179**	22,000	17,899
AgrSuccess Journal distribution	50,000	**44,234**	25,000	14,983

There were 73 workshops and 12 seminars in both official languages delivered in all ten provinces in Canada. The number of learning events increased slightly over 2005-06, and the average attendance at all workshop events increased by 16 per cent. In total, 3,191 people attended AgriSuccess events this past year, and 3,521 attended AgriSuccess-sponsored speaking events. The goal for workshop and seminar attendance is 3,300 in 2007-08. AgriSuccess forums will continue as a learning event format and will be expanded next year – 2,760 people attended AgriSuccess forums in 2006-07.

The AgriSuccess Journal subscriber list for the March 2007 edition totalled 44,234. The AgriSuccess Express subscription list included 24,179 e-mail addresses at year-end. Express circulation continues to grow, but at a slower pace than other years. It is expected that the e-mail distribution system will be upgraded in 2007-08.

Agri-Assurances

FCC offers loan life and accident insurance providing protection for its customers, their families and businesses. This past year, loan and accident insurance plans were simplified, while still offering all the past flexibility including full and partial coverage for reducing balance, key person, payment protection, fixed and revolving plans. FCC group creditor insurance plans are underwritten by Sun Life Assurance Company of Canada.



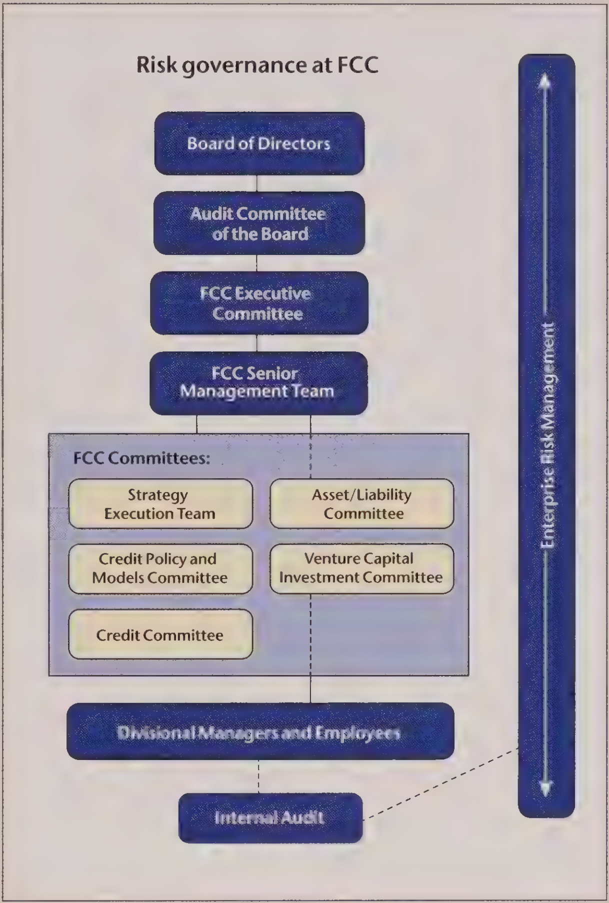
Insurance coverage sold on new loans in 2006-07 was $624.7 million compared to $592.0 million in 2005-06. Gross insurance revenue in 2006-07 increased to $11.1 million from $9.9 million in 2005-06. Net revenues from loan life and accident insurance vary from year to year depending on claims paid. For 2006-07, net insurance revenue was $3.5 million compared to $2.3 million in 2005-06.

($ millions)	2008 Plan	**2007**	2007 Plan	2006
Gross insurance revenue	10.7	**11.1**	10.3	9.9
Net insurance revenue	3.2	**3.5**	2.0	2.3

Gross insurance revenue was $11.1 million in 2006-07, $0.9 million higher than plan. The assumption for the 2007-08 planned gross and net insurance revenue was based on a lower loans receivable balance and insurance program as of March 31, 2007. Based on these assumptions, $10.7 million and $3.2 million in gross and net insurance revenue is the planned amount for fiscal 2007-08.

Enterprise risk management

Risk management is key to protecting FCC's customers, business interests and long-term viability. Enterprise risk management (ERM) helps balance risk-taking activities and risk management practices within the context of executing corporate strategy and achieving business goals and objectives. ERM creates a common understanding of risk, provides a framework to comprehensively identify risks and risk interdependence, and ensures risk-taking activities and risk management practices are appropriate to meet customers' needs and are aligned with shareholder's expectations.



Risk governance

The **Board of Directors** has oversight responsibility for management of risks of the corporation.

The **Audit Committee** of the FCC Board of Directors assists the Board in fulfilling its responsibilities by ensuring management has identified key risks and has put in place reasonable policies, control systems and practices to manage these risks. The Audit Committee receives semi-annual reports from management outlining the levels and trends in major risk areas and corresponding risk management measures implemented to provide assurance that FCC is effectively managing risk.

The **Executive Committee** (EC) is accountable for championing a culture that supports effective risk management and strategic decision-making, including risk/reward decisions, compensation alignment and prioritization. Additionally, EC reports to the Board on risks with potentially high impact to the corporation as they arise.

The **Senior Management Team** (SMT) participates in enterprise-wide assessment of risks and ranks them according to the extent of their impact and likelihood of occurrence. SMT is accountable for developing risk management action plans and to report against these risks.

The **Strategy Execution Team** (SET) is responsible for the ongoing monitoring and execution of the corporate workplan to enable the achievement of FCC's strategic objectives. SET prioritizes and sequences corporate projects to ensure alignment with the FCC strategy and optimum use of financial and human resources.

The **Asset/Liability Committee** is responsible for the establishment and maintenance of market risk policies and procedures, and ensuring sufficient integration with corporate strategic and financial planning.

The **Credit Policy and Models Committee** oversees the development of credit policies and the enhancement of credit risk models and scorecards to support and maintain FCC's desired credit culture. The committee works to ensure these portfolio risk tools reflect FCC's credit risk tolerance, industry best practices and compliance with federal, provincial and regional laws and regulations.

The **Credit Committee** reviews and makes lending decisions on loan applications in excess of prescribed limits.

The **Venture Capital Investment Committee** adjudicates all recommendations on venture capital investments made by the corporation and reviews the performance of the existing investment portfolio.

Internal Audit provides independent assurance to FCC management and the Audit Committee on the effectiveness of FCC's risk management, internal control and governance processes.

The **Enterprise Risk Management** business unit co-ordinates a comprehensive view of risk across the organization and works with the Strategy division's Corporate Project Management Office to ensure that ERM is incorporated in the strategic planning process. The ERM function facilitates the assessment and ranking of significant risks identified by FCC management and supports business units in developing actions to address ongoing business risks while enhancing FCC's ability to capitalize on developing opportunities. ERM reports semi-annually to the Audit Committee with respect to the highest-ranked risks.

FCC's ERM framework sets out the major categories of risk to which FCC is exposed: credit risk, market risk, liquidity risk and operational risk.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet its financial obligations to FCC. This is the most significant measurable risk that FCC faces.

In order to fulfil the corporate mission to enhance rural Canada by providing business and financial solutions to farm families and agribusiness, and to meet the governing objective of remaining financially self-sustaining in order to grow support for agriculture and customers, a balance must be maintained between net income (profitability) and risk (volatility of net income). This relationship is explained in FCC's portfolio vision statement:

FCC's vision for the loan portfolio is having it perform at a level sufficient to create the desired level of net income within an acceptable range of volatility. The desired net income will support growth of the portfolio to achieve FCC's mission in a growing agriculture economy.

The Portfolio Management division assesses credit risk at the aggregate level, providing risk assessment tools and models to quantify credit risk and default loss allowances. The division also monitors the agriculture and agri-food operating environments to ensure FCC lending policies, activities and prices are appropriate and relevant.

The following tools or systems are used to manage credit risk within the portfolio. Numeric targets associated with many of these tools are set annually to assist in achieving the portfolio vision statement. Significant research, modelling, validation and interpretation support the targets for each tool:

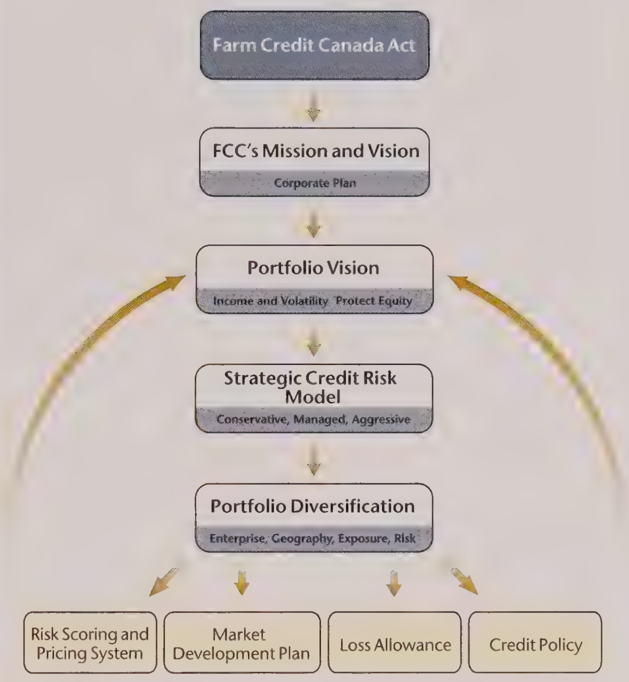
The **Strategic Credit Risk Model** (SCRM) measures the risk in the portfolio first by totalling individual loans or transaction risk, then overlaying risks for concentrations of loans by lines of business, enterprises, geographical areas and customer exposure. There are three possible score ranges, each corresponding to a credit risk strategy:

- Conservative (maximizes portfolio quality)
- Managed (balances portfolio quality and growth)
- Aggressive (maximizes growth)

FCC targets the managed range and in 2006-07 the SCRM indicated a managed level of overall strategic credit risk.

These results show consistent credit risk exposure over the past five years, indicating that credit risk has been managed successfully.

Portfolio management overview



The **Portfolio Diversification Plan** is a process that determines the five-year optimal portfolio composition through a balance of profitability and risk. It considers projected growth in Canadian agriculture debt, risk-adjusted and cost-adjusted returns by sector and FCC growth trends. The Portfolio Diversification Plan identifies target ranges and adjustment options for each of the following:

- diversification across sectors, geographical areas and business lines
- market share by enterprise and geographical area
- large customer exposure limits and approval authorities for large exposure customers
- maximum target market share for minor, niche market sectors

FCC is currently within the target ranges and is planning for growth in each sector.

The **Risk Scoring and Pricing System** is a behavioural scorecard used as FCC's risk rating system. It is also used to suggest interest rates for individual loans and ensures the cost of funds, risk, operating cost and planned profit are recovered.

The **Market Development Plan** operationalizes the Portfolio Diversification Plan, presenting the rationale, objective and strategy for each of FCC's business lines. The strategy component presents the relative priority of market development efforts in retention, expansion or acquisition for each business line in the upcoming year.

The **Loan Loss Model** models the losses due to credit risk within the loan portfolio. The Specific Allowance Loan Loss model identifies non-performing loans. The General Allowance Loan Loss model identifies loans that are still performing but have characteristics that indicate deterioration in credit-worthiness. In addition, the model considers recent events and changes in economic conditions that may have created deterioration in credit quality for many loans that has not yet been exhibited. For both of these groups of loans, the models consider security position to estimate the appropriate amount of loss allowance. Recording such losses protects FCC's equity and reduces the stated loans receivable on FCC's balance sheet.

The **Credit Policy** business unit is responsible for the management of FCC credit policies, and makes recommendations to the Credit Policy and Models Committee to ensure an appropriate balance between risk mitigation and effective procedures. Credit Policy reviews, enhances and clarifies credit policies, communicates policy changes to staff and provides policy training and ongoing interpretation of policy in relation to general and specific lending situations.

Operations employees with lending authorities are responsible for managing credit risk on the loans in their portfolio. Lending authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. Operations monitors customer and loan performance throughout the life of the loan through ongoing account management as well as the account review process.

The Credit Risk division manages credit risk for larger loans as well as loans with a higher risk rating. Credit Risk staff are responsible for credit-related delegation of authorities, credit education and coaching, and credit authorization including Credit Committee recommendations. Valuation staff research land sales, maintain benchmark data on land values and appraise the value of FCC security with particular emphasis on specialized enterprises and agribusinesses. Employees in Special Credit manage and resolve higher-risk accounts experiencing challenges.

Market risk

Market risk is the potential for loss to FCC as a result of adverse changes in underlying market factors such as the level of competition, business and economic conditions, interest rates and credit risk associated with derivative counterparties.

FCC has market risk policies and limits to ensure exposures to interest rate, foreign exchange and derivative counterparty credit risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by the Asset/Liability Committee (ALCO) and are approved by the Board of Directors. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and to the Board of Directors on its activities and asset/liability positions.

The Treasury division is responsible for managing funding operations as well as mitigating associated risks such as liquidity risk, interest rate volatility, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Interest rate risk is effectively managed through hedging and pricing strategies. FCC's policy is to eliminate foreign exchange risk. To accomplish this, all foreign currency borrowings are fully hedged at the time of issuance unless the foreign currency denominated debt is used specifically to finance a like currency asset.

Interest rate risk

Interest rate risk is the potential for adverse impacts on FCC's earnings and economic value due to changes in interest rates. FCC is exposed to interest rate risk primarily from interest rate mismatches and embedded options. Interest rate

mismatches between assets, liabilities and off balance sheet instruments occur because of different maturity, renewal and/or re-pricing dates. Embedded options exist on loans that have principal deferral options, prepayment features and interest rate guarantees on mortgage commitments.

Exposure to interest rate risk is monitored primarily using an asset/liability model. Various scenarios are produced on a monthly basis to analyze the sensitivity of income and market values to changes in interest rates and balance sheet assumptions. The asset/liability model is back-tested to ensure that the logic and the assumptions used in the model are reasonable when compared to actual results.

The asset/liability model simulates changes in net interest income and the market value portfolio equity for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2007, an immediate and sustained two per cent change in the yield curve (across all maturities) would affect net interest income (over the next 12 months) and the market value of portfolio equity as follows:

	2% increase	2% decrease
	($ millions)	
Net interest income variability	-5.7	3.7
Market value portfolio equity variability	-102.1	92.3

Derivatives

FCC uses derivatives to hedge interest rate and foreign currency risk. No derivatives are entered into for speculative purposes. Derivative instruments may be used to hedge exposures to foreign exchange risk, basis risk, the options embedded in FCC's loan products, and the mismatches in the cash flows and interest rate characteristics of FCC's assets and liabilities. In addition, in the normal course of financing the operations of FCC, derivative instruments may be used in combination with a debt instrument to synthetically create floating or fixed rate debt. Such transactions alter the cash flows and risk profile of the assets and liabilities to ensure interest rate risk and foreign exchange risk are managed within Board-approved policy limits and Department of Finance borrowing limits.

Credit risk arises from the potential for a counterparty of a derivative contract to default on its contractual obligation to FCC. FCC is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. To mitigate this risk, FCC transacts derivatives only with counterparties of high credit quality, as determined by the published ratings of external credit rating agencies. Furthermore, standard credit mitigation via netting arrangements provided in the master International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. Credit Support Annex documentation is also in place with most of FCC's counterparties. These agreements are addendums to existing ISDA documentation and provide FCC with collateral in the event that the counterparty credit exposure exceeds an agreed threshold.

Liquidity risk

Liquidity risk is the potential for financial loss if FCC cannot meet a demand for cash or fund our obligations at a reasonable cost as they come due.

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash and marketable securities equal to $681.3 million were on hand at March 31, 2007 (March 31, 2006 – $668.7 million); ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities and limits the size and composition of the total investment portfolio
- access to commercial paper markets – FCC's domestic and Euro commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements
- access to a $10 million bank operating line of credit and a $50 million revolving credit facility

Operational risk management

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events that are not related to credit, market or liquidity risks. FCC is committed to preserving customer and shareholder value by proactively managing operational risk. Managers are responsible for daily management of operational risk by ensuring appropriate internal controls, policies and procedures are in place within their business units and are operating effectively. Executive Committee and the Senior Management Team are responsible for managing enterprise-wide operational risk.

A number of enterprise-wide programs and strategies are in place to assist with the management of operational risk:

Business continuity management: FCC is actively updating and testing its business continuity management to mitigate the risks associated with varying degrees of potential business disruptions including those associated with a human pandemic.

Corporate social responsibility (CSR): In 2006-07, the Board of Directors approved the adoption of a comprehensive CSR strategy, which includes initiatives associated with six themes:

- Corporate governance
- Human resources management
- Community investment and involvement
- Environment, health and safety
- Human rights
- Customers

The importance of CSR is reflected in its inclusion in the balanced scorecard and quarterly status reporting to the Board.

Corporate culture: FCC is committed to a culture that fosters committed partnerships that create extraordinary customer and employee experiences. The FCC cultural practices supplement the corporate values by explicitly outlining the behaviour expected of FCC staff at all times with colleagues, customers, partners, suppliers and stakeholders. Staff are accountable for their impact on business results as well as their impact on people.

Employee engagement survey: On an annual basis, FCC employees participate in the Best Employers in Canada study. This study provides a valuable measure of employee engagement, a gauge of emotional and intellectual commitment employees demonstrate for the organization for which they work. Strong employee engagement translates into employees speaking positively about the corporation, wanting to stay with the organization as well as doing all they can to help the corporation achieve its business goals.

Internal Audit: The FCC Internal Audit group provides the Board and management with independent assurance on the effectiveness of risk management, control and governance processes.

Code of conduct, whistleblower protection and Integrity Officer: Acting with integrity has long been a core value of FCC. As a complement to the corporate values and cultural practices, FCC's code of conduct and ethics ensures all employees and Board members have a clear and consistent understanding of how it applies to everyday work. In support of the code of conduct, FCC has included whistleblower protection and has established a confidence line to report possible violations of the code by others. The Integrity Officer upholds the highest standards of governance and accountability regarding the code of conduct and ethics

The Enterprise Risk Management business unit assists functional and senior managers in identifying operational risks, facilitates an annual evaluation of the likelihood and potential impact of these risks, co-ordinates the business continuity management program and prepares semi-annual progress reports for FCC's senior management and the Audit Committee.

Future accounting and reporting changes

Financial instruments – recognition and measurement

In January 2005, the CICA issued three new accounting standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income. The new standards are to be applied prospectively and are effective for the corporation's fiscal year beginning on April 1, 2007.

The new standards will require the corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Financial liabilities will be classified as other or held-for-trading. The new standards also require the initial recognition of certain financial guarantees at their fair value on the balance sheet. Subsequent measurement is to be determined by the classification of each financial asset and financial liability.

Financial assets classified as held-to-maturity will be restricted to financial assets with a fixed term to maturity that the corporation intends and is able to hold to maturity. Financial assets classified as held-to-maturity or loans and receivables will be accounted for at amortized cost. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in shareholder's equity called Other Comprehensive Income (OCI).

Financial liabilities classified as other will be accounted for at amortized cost. Financial liabilities classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income.

OCI will be a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income will be added to the corporation's primary financial statements. Comprehensive income is composed of the corporation's net income and OCI. OCI includes unrealized gains and losses on available-for-sale securities, foreign currency translation and changes in the fair value of derivative instruments designated as cash flow hedges.

Derivative financial instruments will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivative's fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in OCI. These will subsequently be reclassified to net income in the periods where net income is affected by the variability in the cash flows of the hedged item. The ineffective portion of changes in the derivatives' fair value will be reported in net income.

On transition, any previously recorded deferred gains or losses on hedging instruments with respect to cash flow hedging relationships that were discontinued prior to April 1, 2007, but qualify for hedge accounting under the new standards, will be recognized in opening accumulated other comprehensive income and reclassified to net income in the same period during which the hedged item affects net income. For discontinued cash flow hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of retained earnings.

Farm Credit Canada

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The consolidated financial statements include some amounts that are necessarily based on management's best estimates and judgement, such as the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the corporation complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and consolidated financial statements of the corporation and for issuing her report thereon.

John J. Ryan
President and
Chief Executive Officer

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 18, 2007

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food

I have audited the consolidated balance sheet of Farm Credit Canada as at March 31, 2007, and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Farm Credit Canada Act and the bylaws of the corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 18, 2007

Consolidated Balance Sheet

As at March 31 ($ thousands)

		2007		2006
Assets				
Cash and cash equivalents	$	315,569	$	297,870
Temporary investments (Note 3)		365,698		370,830
Accounts receivable		23,654		25,310
Derivative-related assets (Note 14)		11,991		13,339
		716,912		707,349
Loans receivable – net (Notes 4 and 5)		13,013,720		11,795,919
Venture capital investments (Note 6)		46,395		34,797
		13,060,115		11,830,716
Real estate property held for sale		1,475		1,159
Equipment and leasehold improvements (Note 7)		33,880		28,986
Other assets (Note 8)		21,849		8,139
		57,204		38,284
Total assets	$	13,834,231	$	12,576,349
Liabilities				
Accounts payable and accrued liabilities	$	36,874	$	33,796
Accrued interest on borrowings		127,547		88,267
		164,421		122,063
Borrowings (Note 9)				
Short-term debt		5,103,859		5,684,111
Long-term debt		6,950,566		5,361,628
		12,054,425		11,045,739
Other liabilities (Note 10)		27,967		29,443
Derivative-related liabilities (Note 14)		125,249		115,241
		153,216		144,684
		12,372,062		11,312,486
Shareholder's equity				
Capital		547,725		547,725
Retained earnings		914,444		716,138
		1,462,169		1,263,863
Total liabilities and shareholder's equity	$	13,834,231	$	12,576,349

Commitments, guarantees, and contingent liabilities (Note 16).
The accompanying notes are an integral part of the consolidated financial statements.

Approved:

John J. Ryan, President and Chief Executive Officer

Marie-Andrée Mallette, Chair, Audit Committee

Consolidated Statement of Operations and Retained Earnings

For the year ended March 31 ($ thousands)

	2007	2006
Interest income		
Loans	$ 871,511	$ 703,218
Investments	40,414	21,889
Total interest income	911,925	725,107
Interest expense		
Short-term debt	169,361	112,604
Long-term debt	327,996	224,078
Total interest expense	497,357	336,682
Net interest income	414,568	388,425
Provision for credit losses (Note 5)	38,927	62,399
Net interest income after provision for credit losses	375,641	326,026
Other income	5,813	6,557
Income before administration expenses	381,454	332,583
Administration expenses (Note 11)	177,671	162,959
Net income	203,783	169,624
Retained earnings, beginning of year	716,138	551,824
Dividend paid	(5,477)	(5,310)
Retained earnings, end of year	$ 914,444	$ 716,138

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 ($ thousands)

		2007		2006
Operating activities				
Net income	$	203,783	$	169,624
Items not involving cash and cash equivalents:				
Provision for credit losses		38,927		62,399
Gain on sale of venture capital investments		(1,610)		(2,018)
Write-down of venture capital investments		1,000		–
Amortization of bond premiums/discounts		14,990		14,579
Change in accrued interest receivable		(25,760)		(12,534)
Change in accrued interest payable		39,280		11,100
Change in derivative-related assets		1,348		10,527
Change in derivative-related liabilities		10,008		21,561
Amortization of equipment and leasehold improvements		11,241		10,522
Foreign exchange gains/losses		(2,211)		(30,379)
Other		(13,050)		(3,631)
Cash provided by operating activities		277,946		251,750
Investing activities				
Disbursement of loans receivable		(4,185,710)		(3,800,565)
Repayment of loans receivable		2,956,125		2,644,401
Acquisition of temporary investments		(1,232,181)		(857,413)
Proceeds on maturity/disposal of temporary investments		1,238,687		757,142
Acquisition of venture capital investments		(19,677)		(12,745)
Proceeds on disposal and repayment of venture capital investments		8,197		11,195
Purchase of equipment and leasehold improvements		(16,134)		(11,165)
Acquisition of real estate property held for sale		(316)		(638)
Cash used in investing activities		(1,251,009)		(1,269,788)
Financing activities				
Long-term debt from capital markets		3,001,591		2,544,983
Long-term debt repaid to capital markets		(1,425,301)		(2,847,941)
Dividend paid		(5,477)		(5,310)
Capital contribution		–		40,000
Change in short-term debt		(580,051)		1,266,114
Cash provided by financing activities		990,762		997,846
Change in cash and cash equivalents		17,699		(20,192)
Cash and cash equivalents, beginning of year		297,870		318,062
Cash and cash equivalents, end of year	$	315,569	$	297,870
Supplemental information				
Cash interest paid during the year	$	458,076	$	325,583

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board, and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The Act continues the corporation with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This new Act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, the corporation may deliver specific programs for the Government of Canada on a cost-recovery basis.

Capital

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998, reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2007, capital payments received from the Government of Canada amounted to $1,208.3 million (2006 – $1,208.3 million). The statutory limit for that same period was $1,250.0 million (2006 – $1,250.0 million).

In 2005, the Government of Canada agreed to provide the corporation with additional capital contributions of $75 million over the next five years. To date, the corporation has received $40 million in additional capital contributions. There were no additional capital contributions received in 2007.

Dividend

On December 7, 2006, the corporation's Board of Directors declared a dividend in the amount of $5.5 million to the corporation's shareholder, the Government of Canada, which was paid March 26, 2007 (2006 – $5.3 million).

Limits on borrowing

The Farm Credit Canada Act restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times its equity with the prior approval of the Governor-in-Council.

At March 31, 2007, the corporation's total liabilities were 8.5 times the equity of $1,462.2 million (2006 – 9.0 times the equity of $1,263.8 million).

Avrio Ventures Limited Partnership

On November 1, 2006, the corporation entered into a limited partnership agreement forming Avrio Ventures Limited Partnership (the partnership). This agreement provides for the partnership to raise up to $125 million in funding.

The corporation has committed to provide the partnership with capital contributions of $50 million which represents a 97 per cent interest in the partnership at March 31, 2007. At fiscal year end the corporation has contributed $0.8 million.

2. Significant accounting policies

The corporation's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of the consolidated financial statements in accordance with GAAP requires that management make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below and in the following pages.

Basis of consolidation
The consolidated financial statements includes the accounts of the corporation and Avrio Ventures Limited Partnership. The partnership falls under the classification of a variable interest entity for which the corporation is the primary beneficiary. Inter-company balances and transactions have been eliminated in the consolidated figures.

Variable interest entities
A variable interest entity (VIE) is an entity in which the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinate financial support. The corporation identifies VIEs in which it has an interest, determines whether it is the primary beneficiary of such entities and if so, consolidates them. The primary beneficiary is an entity that is exposed to a majority of the VIE's expected losses or entitled to a majority of the VIE's expected residual returns, or both. The corporation has determined that Avrio Ventures Limited Partnership falls under the classification of a VIE for which the corporation is the primary beneficiary. The accounts of the partnership have been included in these consolidated financial statements.

Cash and cash equivalents
Cash and cash equivalents are composed of bank account balances and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

Temporary investments
Temporary investments are defined as investments with maturity dates between 91 and 365 days from the date of acquisition. They are acquired primarily for liquidity purposes and are intended to be held to maturity. Temporary investments are carried at cost; however, where there has been a significant and other than temporary decline in market value, temporary investments are written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value are included in investment income.

Loans receivable
Loans receivable are stated net of the allowance for credit losses and deferred loan fees.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is classified as impaired, the carrying amount is reduced to its estimated realizable amount through an adjustment to the allowance for credit losses. Changes in the estimated realizable amount arising subsequent to initial impairment are also adjusted through the allowance for credit losses.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when, in management's opinion, there is no longer any reasonable doubt regarding the collectability of principal and interest, and payments are not 90 days past due.

Interest income
Interest income is recorded on an accrual basis until such time as a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured. At that time previously non-accrued interest is recognized as interest income.

Loan fees

Fees relating to loan origination, including commitment, restructuring and renegotiation fees, are considered an integral part of the return earned on the loans and are deferred and amortized to interest income over the average loan term. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees. Loan prepayment fees are recognized in interest income when received.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government support programs, commodity prices and climatic conditions.

In determining the allowance for credit losses, management segregates credit losses into two components: specific and general.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of the recorded investment or the estimated realizable amount of the underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allowance includes an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the criteria that would require a specific allowance to be established. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to identify probable credit losses on a loan-by-loan basis. The amount of the allowance is calculated based on the application of expected loan default rates to the estimated loss amounts for the loans identified. These factors are based on the corporation's historic loan loss experience and are adjusted to reflect current conditions.

The general allowance also includes management's best estimate of the probable unidentified credit losses in the portfolio. This assessment of probable unidentified credit losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends, to allow for probable credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks and does not represent future credit losses or serve as a substitute for other allowances.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Venture capital investments

Venture capital investments, where the corporation does not have significant influence, are recorded at cost less any decline in market value that is considered to be other than temporary. Interest on debt and dividends on preferred shares are accrued when receivable. Dividends on common shares are included in income when declared. Investments over which the corporation has significant influence are recorded using the equity method. Under this method, the pro rata share of post-acquisition earnings is included in income for the period. Dividends received or receivable reduce the carrying value of the investment.

Gains or losses on disposal are recognized in income when realized. Venture capital interest, royalty and dividend income amounts are included in investment income. Venture capital fee revenue and gains and losses on investments, including write-downs, are included in other income.

Real estate property held for sale

Property acquired from customers in settlement of loan commitments is classified as held for sale and recorded at fair value less selling costs. Fair value less selling costs is the amount that could be realized in an arm's-length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Net operating costs incurred on real estate property held for sale are included as a component of other income. Recoveries arising from the disposal of real estate property held for sale are recognized when title to the property passes to the purchaser. The carrying value of real estate property held for sale is also adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. These recoveries and adjustments are included as a component of other income.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 and 5 years
Leasehold improvements	Straight-line	Lease term

Agri-Assurances

The corporation sells group creditor life and accident insurance to its customers through the Agri-Assurances program. The program is administered by a major insurance provider, and is based on premiums that are actuarially determined. Insurance premiums charged to customers are recognized in income in the period for which the premium provides insurance coverage.

The corporation's insurance claim expense consists of paid claims that are recorded as incurred throughout the year plus a provision for insurance claims. The provision for insurance claims represents the estimated liability attributable to claims incurred but not yet reported, on or before the balance sheet date under the terms and conditions of the insurance policies. The insurance premiums net of insurance claims expense and other expenses paid to the insurance provider for administering the program are recorded in other income.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses are included in net income for the year as a component of interest income or interest expense.

Long-term debt

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and included in interest expense over the lives of the obligations.

Employee future benefits

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require that employees make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

On termination of employment, employees are entitled to non-pension post-retirement benefits provided for under their terms of employment. The corporation also provides health-care benefits to employees on long-term disability.

The accrued benefit obligation for pension and non-pension post-retirement benefits is actuarially determined using the projected benefit method pro-rated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered

by the defined benefit pension plans is 10 years (2006 – 10 years). The average remaining service period to expected retirement age is 16 years (2006 – 16 years) for employees expected to receive benefits under the post-retirement non-pension benefit plan and 11 years (2006 – 11 years) for active employees covered by the post-employment benefit plan.

Past service costs arising from plan amendments are amortized over the average remaining service period of active employees when the amendment is recognized.

Derivative financial instruments

Market risk is the risk of loss due to an exposure to changes in foreign exchange rates or interest rates. Derivative financial instruments, which are used to manage this risk, create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. The corporation manages its exposure to market risk using limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

The corporation formally assesses and documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, to ensure the relationships qualify for hedge accounting. This process includes linking all derivatives to specific assets, liabilities, or cash flows. The corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives that qualify for hedge accounting are accounted for on an accrual basis with the related interest revenue or expense recognized on the same basis as the hedged item as an adjustment to interest expense. Unrealized foreign exchange gains and losses on cross-currency contracts are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency borrowings.

Hedge accounting is discontinued prospectively when the derivative is unwound, matures or no longer qualifies as an effective hedge. At the date the hedge accounting relationship is discontinued, the difference between the fair value and the accrued value of the derivative is deferred and recognized over the remaining term of the original hedging relationship. For derivatives still outstanding following the date of the discontinued hedging relationship, all following gains and losses are recognized immediately in interest expense.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the instrument as an adjustment to interest expense.

Derivative-related assets and derivative-related liabilities include amounts receivable or payable under interest rate swap contracts, unamortized balances of premiums received or paid for derivative financial instruments, unrealized gains and losses on derivatives not accounted for using hedge accounting and the remaining difference between the fair value and the accrued value of discontinued derivatives, respectively. Unrealized gains and losses on foreign currency exchange contracts are included as a component of the derivative-related assets and liabilities, respectively.

Future accounting and reporting changes

In January 2005, the CICA issued three new accounting standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income. The new standards are to be applied prospectively and are effective for the corporation's fiscal year beginning on April 1, 2007.

The new standards will require the corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Financial liabilities will be classified as other or held-for-trading. The new standards also require the initial recognition of certain financial guarantees at their fair value on the balance sheet. Subsequent measurement is to be determined by the classification of each financial asset and financial liability.

Financial assets classified as held-to-maturity will be restricted to financial assets with a fixed term to maturity that the corporation intends and is able to hold to maturity. Financial assets classified as held-to-maturity or loans and receivables will be accounted for at amortized cost. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in shareholder's equity called Other Comprehensive Income (OCI).

Financial liabilities classified as other will be accounted for at amortized cost. Financial liabilities classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income.

OCI will be a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income will be added to the corporation's primary financial statements. Comprehensive income is composed of the corporation's net income and OCI. OCI includes unrealized gains and losses on available-for-sale securities, foreign currency translation and changes in the fair value of derivative instruments designated as cash flow hedges.

Derivative financial instruments will be classified as held-for-trading unless designated as hedging instruments. All derivatives, including embedded derivatives, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivative's fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in OCI. These will subsequently be reclassified to net income in the periods where net income is affected by the variability in the cash flows of the hedged item. The ineffective portion of changes in the derivatives' fair value will be reported in net income.

On transition, any previously recorded deferred gains or losses on hedging instruments with respect to cash flow hedging relationships that were discontinued prior to April 1, 2007, but qualify for hedge accounting under the new standards, will be recognized in opening accumulated other comprehensive income and reclassified to net income in the same period during which the hedged item affects net income. For discontinued cash flow hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of retained earnings.

The following table summarizes the corporation's expected classification of financial instruments on April 1, 2007:

	Financial instrument type	**Classification**
Financial assets	Temporary investments	Available-for-sale
	Accounts receivable	Loans and receivables
	Loans receivable	
	Venture capital investments	Held-for-trading
Financial liabilities	Accounts payable and accrued liabilities	Other financial liabilities
	Short-term debt	
	Long-term debt (other)	
	Long-term debt (structured notes)	Held-for-trading
Derivatives	Receive-fixed and pay-fixed swaps	Hedge accounting – cash flow hedges
	Structured note swaps	Held-for-trading
	Overnight index swaps (OIS)	

A transition adjustment attributable to the following will be recognized in the corporation's opening balance of retained earnings as at April 1, 2007: (i) financial instruments classified as held-for-trading that were not previously recorded at fair value, (ii) the ineffective portion of cash flow hedges, (iii) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards, and (iv) the initial recognition of the corporation's financial guarantees at fair value.

A transition adjustment attributable to the following will be recognized in the corporation's opening balance of accumulated other comprehensive income as at April 1, 2007: (i) financial assets classified as available-for-sale that were not previously recorded at fair value, (ii) the effective portion of cash flow hedges, and (iii) deferred gains and losses on discontinued hedging relationships that qualify for hedge accounting under the new standards.

These changes will be applied prospectively and the prior period will not be restated.

3. Temporary investments

($ thousands)	2007	2006
Issued or guaranteed by Canada	$ –	$ 64,745
Yield	–	3.52%
Other institutions	365,698	306,085
Yield	4.27%	3.57%
	$ 365,698	$ 370,830

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1M or higher by Dominion Bond Rating Service (2006 – R-1M or higher). As at March 31, 2007, the largest total investment in any one institution was $75.0 million (2006 – $65.0 million).

4. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2007. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

($ thousands)	Under 1 year	1 to 5 years	Over 5 years	2007 Total	2006 Total
Floating	$ 641,731	$ 6,340,460	$ 556,593	$ 7,538,784	$ 7,483,942
Yield	6.97%	6.48%	6.84%	6.54%	6.36%
Fixed	727,155	3,954,358	1,194,774	5,876,287	4,665,715
Yield	6.91%	6.82%	6.75%	6.83%	6.61%
Performing loans	$ 1,368,886	$ 10,294,818	$ 1,751,367	13,415,071	12,149,657
Impaired loans				140,960	167,559
Deferred loan fees				(5,611)	(6,997)
Loans receivable – gross				13,550,420	12,310,219
Less allowance for credit losses				(536,700)	(514,300)
Loans receivable – net				$ 13,013,720	$ 11,795,919

Management estimates that annually over the next three years, approximately 7.5 per cent (2006 – approximately 7.4 per cent) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2007, $72.5 million (2006 – $54.4 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully hedged at time of issuance.

Concentrations of credit risk

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. To manage this risk, the corporation maintains a portfolio vision defining an acceptable portfolio composition considering risk by business line, industry sector and geographic area. The portfolio vision is approved by the Board of Directors and at March 31, 2007 all concentrations are consistent with the approved vision. The concentrations of performing loans and impaired loans by business line, enterprise and geographic area are displayed in the following tables:

Performing loans

Enterprise distribution

($ thousands)	AgProduction	AgValue	Alliances	2007	2006
Cash crops	$ 4,110,879	$ 149,426	$ 69,686	$ 4,329,991	$ 4,006,970
Dairy	3,083,887	884	15,372	3,100,143	2,872,243
Other	1,358,923	49,632	28,157	1,436,712	1,146,732
Value-added	93,635	1,118,632	70,961	1,283,228	1,097,262
Hogs	1,083,240	19,477	18,902	1,121,619	1,063,041
Beef	959,538	3,551	141,759	1,104,848	1,027,744
Poultry	979,230	55,925	3,375	1,038,530	935,665
Performing loans	$ 11,669,332	$ 1,397,527	$ 348,212	$ 13,415,071	$ 12,149,657

Geographic distribution

($ thousands)	AgProduction	AgValue	Alliances	2007	2006
Western	$ 3,092,801	$ 382,971	$ 86,580	$ 3,562,352	$ 2,983,265
Prairie	2,907,949	211,793	147,241	3,266,983	3,011,953
Ontario	3,988,675	353,611	97,824	4,440,110	4,121,894
Quebec	1,103,410	322,881	10,894	1,437,185	1,319,995
Atlantic	576,497	126,271	5,673	708,441	712,550
Performing loans	$ 11,669,332	$ 1,397,527	$ 348,212	$ 13,415,071	$ 12,149,657

Impaired loans

Enterprise distribution

($ thousands)	AgProduction	AgValue	Alliances	2007	2006
Cash crops	$ 57,002	$ 6,517	$ 144	$ 63,663	$ 61,975
Dairy	1,084	–	–	1,084	3,426
Other	15,302	–	75	15,377	20,381
Value-added	4,965	18,124	–	23,089	44,579
Hogs	16,684	–	14	16,698	14,107
Beef	19,450	–	1,126	20,576	20,489
Poultry	473	–	–	473	2,602
Impaired loans	114,960	24,641	1,359	140,960	167,559
Less specific allowance (Note 5)	33,544	7,304	952	41,800	43,694
Net impaired loans	$ 81,416	$ 17,337	$ 407	$ 99,160	$ 123,865

Geographic distribution

($ thousands)	AgProduction	AgValue	Alliances	2007	2006
Western	$ 14,262	$ 7,164	$ 279	$ 21,705	$ 27,900
Prairie	43,424	6,744	213	50,381	48,661
Ontario	27,946	3,342	285	31,573	40,140
Quebec	18,521	5,376	292	24,189	29,068
Atlantic	10,807	2,015	290	13,112	21,790
Impaired loans	114,960	24,641	1,359	140,960	167,559
Less specific allowance (Note 5)	33,544	7,304	952	41,800	43,694
Net impaired loans	$ 81,416	$ 17,337	$ 407	$ 99,160	$ 123,865

5. Allowance for credit losses

($ thousands)		2007		2006
Balance, beginning of year	$	514,300	$	462,500
Write-offs (1)		(25,061)		(16,449)
Provision for credit losses		38,927		62,399
Recoveries		8,534		5,850
Balance, end of year	$	536,700	$	514,300
Specific allowance	$	41,800	$	43,694
General allowance		494,900		470,606
Balance, end of year	$	536,700	$	514,300

(1) The total amount of restructured loans that were written off during the year was $2.0 million (2006 – nil).

6. Venture capital investments

The corporation's portfolio of venture capital investments is focused on providing financing to small- and medium-sized companies in the agriculture industry. As at March 31, 2007, the corporation does not have significant influence in the companies. The concentrations of venture capital investments are listed below.

($ thousands)		2007		2006
Food processing and manufacturing	$	29,213	$	14,554
Agriculture biotechnology		5,501		5,651
Bio-based fuels and chemicals		4,227		8,302
Agriculture equipment manufacturing		3,411		2,252
Commercial-scale primary producers		2,035		3,035
Forestry		2,008		1,003
	$	46,395	$	34,797

Investments are intended to be held for three to seven years through a variety of instruments. Carrying value by type of investment is as follows:

($ thousands)		2007		2006
Common shares	$	21,643	$	11,236
Debt		24,752		23,561
	$	46,395	$	34,797

The total amount of fees, interest and dividends recognized in income for venture capital investments during the year was $5.4 million (2006 – $4.1 million). Venture capital investments with a carrying value of $1.0 million (2006 – $9.2 million) were sold for proceeds of $2.6 million (2006 – $11.2 million) creating a total gain of $1.6 million (2006 – $2 million). The total amount of debt investments that were written off during the year was $1.0 million (2006 – nil). There were no write-downs in the carrying value of the corporation's common share investments (2006 – nil).

In addition to the above investments, the corporation has loans receivable and guarantees of loans receivable from venture capital investees in the amount of $59.5 million (2006 – $40.7 million).

7. Equipment and leasehold improvements

($ thousands)	Cost	2007 Accumulated amortization	Net book value	2006 Net book value
Office equipment and furniture	$ 16,617	$ 9,527	$ 7,090	$ 5,383
Computer equipment and software	47,643	30,438	17,205	16,088
Leasehold improvements	17,491	7,906	9,585	7,515
	$ 81,751	$ 47,871	$ 33,880	$ 28,986

Amortization of equipment and leasehold improvements of $11.2 million (2006 – $10.5 million) is included in administration expenses.

8. Other assets

($ thousands)	2007	2006
Accrued benefit asset (Note 13)	$ 21,815	$ 8,032
Other	34	107
	$ 21,849	$ 8,139

9. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Short-term debt

Short-term debt consists of promissory notes payable within one year of $3,850.5 million (2006 – $4,406.7 million) and the portion of long-term debt due within one year of $1,253.3 million (2006 – $1,277.4 million). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 9, 2006, the corporation renewed a revolving credit facility providing access to funds in the amount of $50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2007, there were no draws on this facility.

The corporation also has a demand operating line of credit, which provides overdraft protection in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this facility are reversed the next day. As at March 31, 2007, there was no outstanding balance (2006 – nil).

Long-term debt

($ thousands)	2007	2006
Debt from capital markets, secured by notes payable in:		
Canadian dollars	$ 6,304,318	$ 4,778,422
United States dollars (1)	328,890	261,766
Japanese yen (2)	317,358	321,440
	$ 6,950,566	$ 5,361,628

(1) $285.0 million United States dollars (2006 – $224.0 million USD)
(2) ¥32.4 billion Japanese yen (2006 – ¥32.4 billion JPY)

Debt payments denominated in foreign currency have been fully swapped into Canadian dollars.

Long-term debt maturities based on final maturity date are as follows:

($ thousands)	2007	2006
Amounts due:		
from 1 – 2 years	$ 808,255	$ 1,103,154
from 2 – 3 years	270,464	569,532
from 3 – 4 years	605,564	220,012
from 4 – 5 years	615,030	565,922
over 5 years	4,651,253	2,903,008
	$ 6,950,566	$ 5,361,628

Structured notes

The corporation has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative financial instruments.

Structured notes outstanding included in long-term debt are as follows:

($ thousands)	2007	2006
Extendible notes	$ 1,530,569	$ 1,345,465
Floating rate notes	497,294	503,536
Targeted redemption notes	447,178	520,950
Callable notes	196,830	159,830
Range notes	116,500	111,500
Index-linked notes	74,246	69,246
Amortizing notes	65,106	89,665
Fixed-rate notes	40,815	22,000
Dual currency notes	30,289	43,638
Other	16,000	16,000
	$ 3,014,827	$ 2,881,830

The redemption of these debt instruments is controllable by the corporation. At the inception of these debt instruments, derivative swap agreements are entered into concurrently to hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the structured note if the counterparty exercises its right to terminate the related derivative swap agreement. These contracts ensure that the corporation will receive proceeds from the swap to meet the requirements of servicing and settling the debt obligation. The corporation has in substance created floating rate debt by issuing notes at fixed rates and entering into swap contracts whereby the corporation receives fixed rate interest and pays interest at a floating rate, and vice versa. In swapping out of the underlying note issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. The counterparty must have a minimum credit rating of A from an external credit rating agency (S&P, Moody's, DBRS or CBRS) for transactions of less than three years, and a minimum external credit rating of AA- for transactions of greater than three years. Credit exposure on derivative financial instruments is further discussed in Note 14.

10. Other liabilities

($ thousands)		2007		2006
Accrued benefit liability – other benefits (Note 13)	$	26,610	$	24,137
Deferred revenues		715		610
Other		642		4,696
	$	27,967	$	29,443

11. Administration expenses

($ thousands)		2007		2006
Personnel	$	115,984	$	105,585
Facilities and equipment		25,057		22,718
Professional		21,147		22,255
Travel and training		11,613		11,756
Other		3,870		645
	$	177,671	$	162,959

12. Agri-Assurances

The transactions related to insurance accounted for in other income are as follows:

($ thousands)		2007		2006
Insurance premiums	$	11,090	$	9,938
Insurance claims		(4,995)		(5,358)
Administration and other expenses		(2,612)		(2,326)
	$	3,483	$	2,254

13. Employee future benefits

Description of benefit plans

The corporation has a registered defined benefit pension plan, two supplemental defined benefit pension plans, a defined contribution pension plan and a defined benefit plan that provide other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans are based on years of service and final average salary and are inflation-protected. The supplemental defined benefit pension plans are available for employees with employment income greater than pensionable earnings.

Other retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans also provide short-term disability income benefits, as well as severance entitlements after employment.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plan, were $23.7 million (2006 – $15.4 million).

Financial position of benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the pension plans for funding purposes were prepared as at December 31, 2006. The next valuations for funding purposes will be as at December 31, 2007.

(*$ thousands*)	**2007 Pension benefits**	2006 Pension benefits	**2007 Other benefits**	2006 Other benefits
Change in accrued benefit obligation:				
Balance at beginning of year	**$ 253,686**	$ 175,210	**$ 23,731**	$ 28,080
Current service cost	**10,737**	7,172	**1,831**	2,089
Interest cost on benefit obligation	**12,908**	10,715	**1,265**	1,664
Contributions by employees	**3,168**	2,579	**–**	–
Benefits paid	**(4,835)**	(3,938)	**(498)**	(442)
Plan amendment	**–**	1,217	**–**	37
Actuarial loss (gain)	**8,797**	60,731	**182**	(7,697)
Benefit obligation at end of year	**284,461**	253,686	**26,511**	23,731
Change in fair value of plan assets:				
Balance at beginning of year	**220,255**	183,651	**–**	–
Actual return on plan assets	**25,691**	26,586	**–**	–
Contributions by corporation	**21,312**	11,377	**–**	–
Contributions by employees	**3,168**	2,579	**–**	–
Benefits paid	**(4,835)**	(3,938)	**–**	–
Fair value of assets at end of year	**265,591**	220,255	**–**	–
Funded status – plan deficit	**(18,870)**	(33,431)	**(26,511)**	(23,731)
Unamortized past service cost	**580**	1,217	**33**	37
Unamortized net actuarial loss (gain)	**37,252**	38,424	**(132)**	(443)
Contributions by corporation after December 31	**2,853**	1,822	**–**	–
Accrued benefit asset (liability) at end of year	**$ 21,815(a)**	$ 8,032(a)	**$ (26,610)(b)**	$ (24,137)(b)

(a) Recorded in other assets.
(b) Recorded in other liabilities.

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

($ thousands)	2007 Pension benefits	2006 Pension benefits	2007 Other benefits	2006 Other benefits
Accrued benefit obligation	$ 266,328	$ 239,551	$ 26,511	$ 23,731
Fair value of plan assets	243,494	205,655	–	–
Funded status – plan deficit	$ (22,834)	$ (33,896)	$ (26,511)	$ (23,731)

Defined benefit costs

($ thousands)	2007 Pension benefits	2006 Pension benefits	2007 Other benefits	2006 Other benefits
Defined benefit costs:				
Current service cost	$ 10,737	$ 7,172	$ 1,831	$ 2,089
Interest cost on benefit obligation	12,908	10,715	1,265	1,664
Actual return on plan assets	(25,691)	(26,586)	–	–
Actuarial loss (gain)	8,797	60,731	182	(7,697)
Past service costs	–	1,217	–	37
Costs arising in the period	6,751	53,249	3,278	(3,907)
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	9,245 (a)	15,669 (a)	–	–
Actuarial (gain) loss	(7,431)(b)	(60,430)(b)	(311)(c)	8,118(c)
Past service cost	637	(1,217)	4	(37)
Defined benefit costs recognized	$ 9,202	$ 7,271	$ 2,971	$ 4,174

(a) Expected return on plan assets of $(16,446) (2006 – $(10,917)) less the actual return on plan assets of $(25,691) (2006 – $(26,586)) = $9,245 (2006 – $15,669).

(b) Actuarial loss recognized for year of $1,366 (2006 – $301) less actual actuarial loss on accrued benefit obligation for year of $8,797 (2006 – $60,731) = $(7,431) (2006 – $(60,430)).

(c) Actuarial (gain) loss recognized for year of $(129) (2006 – $421) less actual actuarial loss (gain) on accrued benefit obligation for year of $182 (2006 – ($7,697)) = $(311) (2006 – $8,118).

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2007 Pension benefits	2006 Pension benefits	2007 Other benefits	2006 Other benefits
Accrued benefit obligation as at December 31:				
Discount rate	**5.00%**	5.00%	**5.00%**	5.00%
Rate of compensation increase	**5.50%**	5.50%	**5.50%**	5.50%
Benefit costs for years ended December 31:				
Discount rate	**5.00%**	6.00%	**5.00%**	6.00/5.25%(a)
Expected long-term rate of return on plan assets	**7.50/4.00%(b)**	7.50/4.00%(b)	–	–
Rate of compensation increase	**5.50%**	3.50%(c)	**5.50%**	4.00%(c)

(a) Percentages reflect post-retirement benefits/post-employment benefits, respectively.
(b) Registered pension plan/supplemental plans, respectively.
(c) Plus annual merit/promotion increases.

Assumed health-care cost trend rates at December 31:

	2007	2006
Hospital:		
Initial rate	**9.50%**	10.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2016**	2016
Prescription drugs:		
Initial rate	**9.50%**	10.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2016**	2016
Other health-care costs:		
Initial rate	**9.50%**	10.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2016**	2016

Sensitivity analysis

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage-point change in assumed health-care cost trend rates would have the following effects for 2007:

($ thousands)	Increase	Decrease
Total of service and interest cost	$ 614	$ (467)
Accrued benefit obligation	3,871	(3,102)

Plan assets

The percentage of plan assets based on market values at the most recent actuarial valuation are:

($ thousands)	2007	2006
Equity securities	**66.6%**	63.4%
Debt securities	**29.5%**	32.5%
Other	**3.9%**	4.1%
	100.0%	100.0%

Defined contribution plan
The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. For the year ended March 31, 2007, the expense was $2.7 million (2006 – $2.6 million).

14. Derivative financial instruments

Description of derivatives
The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The following are detailed descriptions of some of the more prominent derivative instruments used by the corporation to mitigate risk:

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. Included in interest rate swaps are OIS swaps, receive-fixed swaps, pay-fixed swaps and certain structured note swaps.

Cross-currency interest rate swaps are transactions in which two parties exchange notional amounts at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Included in cross-currency interest rate swaps are certain structured note swaps.

Interest rate options are contracts that grant the buyer the right, but not the obligation, to buy or sell a financial instrument at an agreed upon price at a future date.

Notional amounts
Notional principal amounts outstanding at March 31, 2007, for the various derivative financial instruments are:

		Remaining term to maturity				
		Within	1 to 5	Over		
($ thousands)		1 year	years	5 years	2007	2006
Interest rate swap contracts:						
Receive	*Pay*					
Floating	Fixed	$ –	$ 1,051,000	$ 31,000	$ 1,082,000	$ 450,000
Fixed	Floating	9,308,558	280,106	2,646,609	12,235,273	9,772,861
Cross-currency	Floating	761,163	–	–	761,163	695,578
		10,069,721	1,331,106	2,677,609	14,078,436	10,918,439
Interest rate option contracts:						
Receive	*Pay*					
Floating	Fixed	–	–	–	–	140,000
Total		$ 10,069,721	$ 1,331,106	$ 2,677,609	$ 14,078,436	$ 11,058,439

Counterparty credit risk and fair values
The counterparty credit risk associated with derivatives is the risk of loss due to the failure of a counterparty to discharge its obligations in a derivative financial instrument agreement. The counterparty obligation may arise when currency and interest differentials occur resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments.

The corporation manages its exposure to counterparty credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Counterparty credit risk is managed via the corporation's Board approved Counterparty Credit Risk Guidelines, which specify the maximum exposure that the corporation will accept for each level of credit rating. The counterparty must have a minimum credit rating of A from an external credit rating agency (S&P, Moody's, DBRS or CBRS) for transactions of less than three years

and a minimum external credit rating of AA- for transactions of greater than three years. Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes are in place with primary derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

Counterparty credit risk is represented by derivative contracts that have a positive fair value. Net fair value represents the total of positive and negative fair values of all derivative financial instruments. The net fair values of the derivative instruments are as follows:

	2007			2006		
($ thousands)	Positive fair value	Negative fair value	Net fair value	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	$ 37,796	$ 121,448	$ (83,652)	$ 11,041	$ 147,704	$ (136,663)
Cross-currency interest rate swap	3,497	132,132	(128,635)	306	150,072	(149,766)
Interest rate options	–	–	–	361	–	361
Fair value	41,293	253,580	(212,287)	11,708	297,776	(286,068)
Less impact of master netting agreements	40,651	40,651	–	11,708	11,708	–
Net fair value	$ 642	$ 212,929	$ (212,287)	$ –	$ 286,068	$ (286,068)

The derivative contracts entered into by the corporation are over-the-counter instruments. Fair values are determined using present value techniques and quoted market values. Quoted market values are obtained from the counterparty for some derivative instruments. The fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, some of which are about unobservable market parameters. As such, fair values are estimates involving uncertainties, and may be significantly different when compared to another financial institution's value for a similar contract.

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2007 was $3,640.1 million (2006 – $3,884.0 million) and the largest net fair value of contracts with any institution as at March 31, 2007, was $(0.1) million (2006 – $(0.3) million). The notional amounts of the financial instruments reported by the corporation are not indicative of either the market or credit risk associated with the contracts. The risk of loss is related solely to the possibility that a counterparty to a transaction does not perform as agreed. The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties. These agreements create the legal right of offset of exposure in the event of default.

Derivative-related amounts – assets and liabilities

Derivative-related assets as at March 31 is composed of the following item:

a) amounts receivable from counterparties under swap contracts included in derivative-related assets of $12.0 million (2006 – $13.3 million).

Derivative-related liabilities as at March 31 is composed of the following items:

a) amounts payable to counterparties under swap contracts of $7.4 million (2006 – $3.9 million);
b) unrealized losses on foreign currency swaps of $114.9 million (2006 – $112.4 million);
c) unamortized balances of premiums received or paid for derivative financial instruments of $2.9 million (2006 – $(1.0) million); and
d) unrealized gains on derivatives not accounted for using hedge accounting of nil (2006 – $0.4 million).

15. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date. The fair values are determined using the valuation methods and assumptions described below. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair values of derivative financial instruments are not included in the table below and are presented in Note 14.

	2007		2006	
($ thousands)	**Carrying value**	**Estimated fair value**	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	$ 315,569	$ 315,569	$ 297,870	$ 297,870
Temporary investments	365,698	365,698	370,830	370,830
Accounts receivable	23,654	23,654	25,310	25,310
Derivative-related assets	11,991	11,991	13,339	13,339
Loans receivable – net	13,013,720	13,104,019	11,795,919	11,855,237
Venture capital investments	46,395	45,166	34,797	37,122
Liabilities				
Accounts payable and accrued liabilities	$ 36,874	$ 36,874	$ 33,796	$ 33,796
Accrued interest on borrowings	127,547	127,547	88,267	88,267
Short-term debt	5,103,859	5,103,859	5,684,111	5,684,111
Long-term debt	6,950,566	6,995,172	5,361,628	5,355,003
Derivative-related liabilities	125,249	125,249	115,241	115,241

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and cash equivalents, temporary investments, accounts receivable, derivative-related assets, accounts payable and accrued liabilities, accrued interest on borrowings, derivative-related liabilities, and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instruments. The following methods of calculation and assumptions are used:

- Venture capital investments in shares that are traded on an exchange are valued based on the closing share price as of the date of these consolidated financial statements. The investment in debt is valued at book value, which approximates fair value.
- The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts that may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.
- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

16. Commitments, guarantees and contingent liabilities

Loan and venture capital commitments

As at March 31, 2007, loans approved but undisbursed amounted to $890.8 million (2006 – $791.4 million). These loans were approved at an average interest rate of 7.25 per cent (2006 – 6.52 per cent) and do not form part of the loans receivable balance until disbursed. The corporation also approved but did not disburse $5.4 million (2006 – $12.8 million) in venture capital investments. As many of these approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

The corporation has committed to provide Avrio Ventures Limited Partnership with additional capital contributions of $49.2 million, which are expected to be paid over the next five years.

Operating commitments

Future minimum payments by fiscal year on technology services, operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

($ thousands)		
Amounts due:		
within 1 year	$	17,677
from 1 – 2 years		15,808
from 2 – 3 years		14,210
from 3 – 4 years		12,336
from 4 – 5 years		5,586
over 5 years		3,488
	$	69,105

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2007, is $2.7 million (2006 – $2.9 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing items will expire within two years, usually without being drawn upon. No amount has been included in the balance sheet as at March 31, 2007, or March 31, 2006, for these letters of credit.

Contingent liabilities

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements. The indemnification, in certain circumstances, may require that the corporation compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. The corporation's contingent liabilities include creditor life and accident insurance policies sold to customers under the Agri-Assurances program. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the balance sheet as at March 31, 2007, or March 31, 2006, for these indemnifications and contingencies.

17. Interest rate risk

The corporation is exposed to interest rate risk as a consequence of the mismatch or gap between the remaining term to maturity or re-pricing and interest rate sensitivity of its assets and liabilities. The corporation uses derivative financial instruments to manage its interest rate risk. The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. The corporation's borrowings are also shown net of the derivative financial instruments entered into to manage the corporation's interest rate risk and foreign currency risk related to the structured borrowing. In the normal course of business, loan customers frequently prepay their loans in part or in full prior to the contractual maturity date.

(*$ thousands*)	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest-sensitive	Total
Assets							
Cash and cash equivalents	$ –	$ 305,712	$ –	$ –	$ –	$ 9,857	$ 315,569
Effective yield (1)		4.29%					
Temporary investments	–	303,719	57,188	–	–	4,791	365,698
Effective yield (1)		4.28%	4.30%				
Loans receivable	7,443,019	377,858	1,003,610	3,854,244	567,849	(232,860)	13,013,720
Effective yield (1)	6.79%	6.94%	6.67%	6.48%	6.76%		
Venture capital	–	–	–	21,557	2,500	22,338	46,395
Effective yield (1)				11.92%	11.10%		
Other	–	–	–	–	–	92,849	92,849
Total assets	$ 7,443,019	$ 987,289	$ 1,060,798	$ 3,875,801	$ 570,349	$ (103,025)	$ 13,834,231
Liabilities							
Borrowings							
Non-structured borrowings	$ –	$ 4,149,794	$ 956,192	$ 1,207,666	$ 2,837,463	$ 3,398	$ 9,154,513
Effective yield (1)		4.22%	4.05%	3.99%	4.49%		
Structured borrowings	–	3,014,827	–	–	–	(114,915)	2,899,912
Effective yield (1)		4.15%					
Total borrowings	–	7,164,621	956,192	1,207,666	2,837,463	(111,517)	12,054,425
Pay-side instruments on swap contracts (2)	7,085,000	2,896,609	–	1,051,000	31,000	–	11,063,609
Effective yield (1)	4.27%	4.12%		4.36%	4.80%		
Receive-side instruments on swap contracts (2)	–	(8,167,000)	(100,000)	(160,000)	(2,636,609)	–	(11,063,609)
Effective yield (1)		4.25%	3.65%	3.70%	4.46%		
Accrued interest	–	–	–	–	–	127,547	127,547
Other	–	–	–	–	–	190,090	190,090
Shareholder's equity	–	–	–	–	–	1,462,169	1,462,169
Total liabilities and equity	$ 7,085,000	$ 1,894,230	$ 856,192	$ 2,098,666	$ 231,854	$ 1,668,289	$ 13,834,231
Total gap 2007	$ 358,019	$ (906,941)	$ 204,606	$ 1,777,135	$ 338,495	$ (1,771,314)	$ –
Total cumulative gap 2007	$ 358,019	$ (548,922)	$ (344,316)	$ 1,432,819	$ 1,771,314	–	–
Total gap 2006	$ 576,094	$ (145,938)	$ (77,021)	$ 1,095,634	$ 99,400	$ (1,548,169)	–
Total cumulative gap 2006	$ 576,094	$ 430,156	$ 353,135	$ 1,448,769	$ 1,548,169	–	–

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) Represents notional principal amounts on OIS, receive-fixed and pay-fixed swaps. Excludes structured note swaps.

18. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business. Such items are included in the consolidated financial statements as follows:

($ thousands)	2007	2006
Cash and cash equivalents	$ 34,905	$ 9,982
Temporary investments	–	64,745
Interest income	3,667	2,530
Other income	101	244
Administration expenses	3,424	3,247

In addition, the Government of Canada guarantees the borrowings of the corporation.

The corporation administers various programs for Government of Canada departments on a cost-recovery basis. The administration fee for this service is recorded in other income.

The corporation pays management fees to a corporation owned by the General Partner of the corporation's consolidated variable interest entity for the management of the corporation's venture capital investments and investment advisory services. These fees total $0.4 million (2006 – nil) and are included in administration expenses.

19. Segmented information

The corporation is organized and managed as a single business segment, that being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's revenues are within Canada. No one customer comprises more than 10 per cent of the corporation's receivables or interest revenues.

20. Comparative figures

Certain 2006 comparative figures have been reclassified to conform to the current year's presentation.

Balanced scorecard 2007-12

The balanced scorecard summarizes Farm Credit Canada's corporate strategic objectives, measures, targets and initiatives. In 2006, the corporation's strategic themes or key priorities were modified to place additional emphasis on our commitment to agriculture and the employee experience. The strategic themes include financial success and commitment to agriculture, enhance customer experience, optimize execution and performance, and enhance employee experience.

In the five-year planning period from 2007 to 2012, emphasis will be placed on cultural transformation, new technology systems and business processes, and enhancing the customer and employee experience.

Financial success and commitment to agriculture

We serve as a catalyst to effect positive change that helps the agriculture industry succeed and realize our public mandate. We support rural communities and foster pride in the agriculture industry.

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Financial/shareholder Portfolio growth and business line quality Net income Asset/liability management Return on equity and investment	Portfolio growth	5.5% [1]	Monitor performance of portfolio in a changing agricultural environment Invest in communities: • continue to support Ag in the Classroom Promote FCC customer products on CanadianFarmersMarket.com Update strategy for margin management and customer value management
	% of profits invested in communities	1.5%	
	Efficiency ratio	44.8%	
	Debt-to-equity	Under 10:1	
	Return on equity and investment	10.4%	
	Non-interest revenue	$22.8 million	
	Net interest income margin	2.95%	
	% of PND with arrears	6.00%	
	Strategic credit risk management	Managed range: between 51 and 70	

[1] Subsequent to the determination of the portfolio growth targets, major changes in dairy quota administration were announced. Their impact on portfolio growth targets will be assessed in the months ahead when the new regulations are finalized.

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Customer Industry and stakeholder awareness, credibility and support Trusted partner and industry catalyst **Internal capability** Industry investments and stakeholder relations Enhance market awareness and positioning of Farm Credit Canada's full capabilities Leverage knowledge management Monitor and respond to marketplace activities Portfolio vision and risk management	Venture capital • co-investment ratio • capital invested (fiscal year) • total capital outstanding [2]	 1.5:1 $15.0 million $60.9 million	Leverage role as lead sponsor in Canada's first dedicated agricultural life sciences venture capital fund to attract additional investment to the agriculture industry Grow producer knowledge of management practices via AgriSuccess information and learning programs Expand delivery and advocacy of centres of influence for AgExpert Collaborate with Agriculture and Agri-Food Canada in developing the next generation of agriculture and agri-food policy and other joint initiatives Continue to research needs of young farmers to develop new solutions and sustain existing offerings Continue community investment with an emphasis on rural safety and food issues (World Food Day, First Aid on the Farm, etc.) and the AgriSpirit capital giving program Increase awareness of FCC with targeted audiences Investigate opportunities in alternative energy sources Enhance customer awareness of bio-security protocols Leverage Community of Practice (COP) knowledge to the benefit of customers Conduct program to inform elected officials of FCC's role and offerings
	Corporate social responsibility scorecard	Determine targets	
	Corporate reputation index	Establish once baseline is complete	
	Media favourability index	Score of 64	
	Time spent with customers and prospects for value-added activities	Increase the number of proactive customer contacts	

[2] Represents the current balance of all venture capital investments, measured at cost.

Enhance customer experience

We offer our customers more than financing. They want our advice and counsel. They want us to use our specialized knowledge of agriculture financing and management practices to help them build their dreams. Offering personalized insight takes more time than simply processing a loan. We're determined to deliver an extraordinary customer experience.

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Customer Build and expand relationships across channels Anticipate and offer tailored, preferred solutions across channels **Internal capability** Seamless, cross-channel integration to deliver sales, service Relationship selling, management of all FCC solutions Solutions innovation, tailoring and management Customer value management Differentiated online presence Customer and user experience standards management	Customer experience index	Increase score	Implement customer experience standards to enhance delivery of consistent customer experience Monitor customer experience scoreboards and index to determine actions that enhance customer experience Execute online and CSC (call centre) strategies to provide customers with enhanced service via their channel of choice, including addition of second CSC in Moncton Enhance awareness and uptake of other FCC business solutions with Alliances end customers Create products and services uniquely tailored to agriculture and customers
	Channel usage		
	• number of unique website visitors per month	19,000	
	• number of website pages viewed per year	2.25 million	
	• number of online registered borrowers	13,400	
	• number of Customer Service Centre (CSC) customer contacts	90,000	
	• dollars disbursed of CSC direct full-service lending	$275 million	
	Customer value management	Increase the year-end index over start of year	
	Customer channel awareness, preferences and permissions	Benchmark and establish targets for 2008-09 and beyond	

Optimize execution and performance

We're committed to making it easier for our customers and employees to do business by redesigning business processes in ways that will reduce handoffs, increase effectiveness and integrate business lines. We're upgrading the supporting technology and IT infrastructure so we can serve our customers more quickly and efficiently.

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Customer Retain customers and grow loyalty efficiently Continuously deliver consistent, efficient, quality service **Internal capability** Process innovation and continuous improvement Integrated value chain process redesign Agile, integrated IT architecture and solutions delivery IT platform reliability and performance Effective project execution, management and control Integrated strategy implementation and enterprise risk management Enterprise services delivery, management	New customer acquisition – all channels	National index score is greater than zero	Enhance internal control framework to safeguard and maintain financial and security controls Implement business process and technology transformation to enhance customer and employee experience Revamp lending processes to enable more time with customers Enhance and execute business continuity management strategy Continue focus on respecting and safeguarding customer and employee privacy Enhance enterprise risk management, risk mitigation planning and status reporting
	Market share	23%	
	Process improvements benefits realization	Measure performance against targets	
	IT architecture capability	Baseline to be established by Q2; targets to be defined by Q4	
	Project management maturity	Assessment is biennial; survey to be conducted in 2008-09	

Enhance employee experience

FCC is building a strong culture that emphasizes trust, respect, teamwork and high performance. Why? A strong sense of corporate values enables employees to better serve Canadian agriculture.

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
Customer Understand business, financial and relationship needs Extraordinary customer and business relationships **Internal capability** Make it easy for employees to do business Foster employee wellness Aligned performance management Employee development and career opportunities Total rewards philosophy Strategic competencies and capabilities	Employee experience	Measures will be developed to determine targets for years 1, 2, 3 and 5	Enhance the FCC employee experience (wellness strategy) Continue development of job-specific competencies through second phase of compensation, competence and performance management system redesign Make it easy for employees to do business by enhancing processes and tools Enhance employee attraction and retention strategy Develop workforce plan to ensure future capacity to execute business strategy
	Make it easy for employees to do business	Measure performance against targets	

2007-12 Strategic objectives	Measures	2007-08 Plan targets	2007-08 Initiatives
People Strategic enterprise leadership and governance Customer and knowledge culture Culture of partnership, accountability and personal leadership	Engagement score	Minimum threshold 80%	Recruit and transition the new CEO Identify and develop future leaders through the Leadership Development program Educate employees about the FCC vision, mission, corporate plan and key FCC programs and services Identify key drivers for improvement and create action plan to continuously improve employee engagement Continue to invest in employee development to keep knowledge and skills relevant (includes development of specialized skills, field development) Continue implementation and sustainability phases of the cultural transformation strategy

FCC Board of Directors 2006-07

L-R | Donald Bettle, Sharon E. White, R. Claude Ménard, Gill O. Shaw, Jack Christie, John J. Ryan, Russel Marcoux, Deborah Whale, Brad Hanmer, Ron Hierath
Missing: Marie-Andrée Mallette, Réal Tétrault

Corporate governance

The FCC Board of Directors is committed to continually reviewing its corporate governance policies and practices to ensure they are consistent with current best practices and reflect the needs of the corporation. The Board of Directors ensures the corporation remains focused on its mandate by following a deliberate planning and reporting process. This process starts with a letter of expectations from the Minister. This is followed by strategic planning sessions that result in the corporate plan and annual operating, capital and borrowing budgets. The corporation's performance against the expectations of its Minister and its corporate plan are then reported on in the FCC annual report. In addition, as part of its commitment to openness, transparency and accountability, these results will be presented in August 2007 at Farm Credit Canada's first annual public meeting.

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act, and reports to Parliament through the Minister of Agriculture and Agri-Food.

The FCC Board of Directors is appointed by FCC's shareholder, the Government of Canada. The Board Chair and the President and CEO are appointed by the Governor-in-Council. The Minister of Agriculture and Agri-Food appoints FCC directors. There are 12 people on the Board of Directors; all but the CEO are independent of the business.

FCC annual financial statements are audited by the Auditor General of Canada. In addition, every five years, the Auditor General of Canada conducts a special examination. This is a value-for-money audit and is designed to focus on the financial and management controls, information systems and management practices maintained by FCC. A special examination is currently underway and will be completed in November 2007.

Board mandate

The Board oversees FCC to ensure that the corporation manages and performs in the best interests of the corporation, agriculture, Canadians and the Government of Canada.

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. The Board has put in place a written charter and a related set of Board governance guidelines. These documents articulate the Board's responsibilities in six major areas:

- integrity – legal and ethical conduct (setting the tone at the top)
- strategic planning
- financial reporting and public disclosure
- risk management and internal controls
- leadership development and succession planning
- corporate governance – including director orientation, continuing education and evaluation

Independence

With the exception of the CEO, all members of the FCC Board are independent of management. The FCC Board Chair and committee chairs are all independent of management. The Board meets regularly in private, with and without the CEO or other management.

Board evaluation

Through a structured process of self-evaluation, the Board regularly assesses its collective performance and the individual performance of its members, with a view to continuous improvement. This year, the Board engaged in an extensive evaluation conducted by an outside consultant. Each Board member was individually interviewed and required to complete a written survey. Feedback was also sought from members of executive management concerning the effectiveness of the Board and its governance practices. The consultant's report then served as the basis for a special meeting of the Board, focused on self-improvement. Members of the corporation's executive management committee joined the Board near the end of its session. This allowed the opportunity for a full and open discussion that led to alignment between the Board and management concerning the mandate, strategies, governance practices and culture of the corporation.

Public policy role

As a federal Crown corporation, FCC serves a public policy role. Its mission is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. FCC fulfils this mission by offering loans and business services to meet the needs of the industry, operating on a financially self-sustaining basis and supporting agriculture through good times and bad.

This year, for the first time, the Minister of Agriculture and Agri-Food Canada, in consultation with the Board Chair, delivered a letter of expectations that outlined the government's priorities and accountabilities for FCC. The letter is key in ensuring that FCC fulfils its contributions to the government's agenda.

Integrity and ethics

Acting with integrity and maintaining the highest ethical standards are core values for the Board of Directors and FCC. On December 12, 2006, the Federal Accountability Act received royal assent. This Act, through the enactment of new Acts and amendments to existing Acts, provides for conflict of interest rules as well as measures respecting administrative transparency, oversight and accountability applicable to all Crown corporations, including FCC. Compliance with the Conflict of Interest Act is a deemed term and condition of appointment for FCC Board members and the employment of the CEO.

The FCC Code of Conduct and Ethics, to which Board members are also subject, has since March 2005 governed the ethical accountability of employees and Board members in the same way contemplated by the new Act. The establishment of an FCC Integrity Officer in 2005 to oversee the code mirrors the intent and purpose of the Integrity Commissioner established under the amended Public Servants Disclosure Protection Act. This includes providing general advice and ongoing education concerning the code, investigation of disclosures of possible wrongdoing, and the protection from reprisal of individuals making such disclosures.

Board policy specifically related to loans where a director has a material interest, and corporate bylaws prescribing rules for dealing with situations where a director has a conflict of interest provide further clarity and commitment to the code.

Strategic planning and reporting

The Board leads the corporation in the achievement of long-term goals by overseeing the strategic planning process and providing input, guidance, validation and a critical evaluation of strategic plans and initiatives. After the plan has been approved, the Board provides ongoing support to implement and measure the success of those plans and initiatives.

Each year, typically in August, the Board and senior management participate in a joint planning session. At that session, the Board receives a report from management on enterprise risk management. All FCC strategies include measurable targets to gauge performance.

This coming year, FCC will hold its first annual public meeting of stakeholders. This meeting will allow the corporation to report on its activities over the current fiscal year and receive feedback from interested stakeholders and the public at large concerning FCC's mandate and strategic direction.

Feedback from this meeting will be used in the Board's strategic planning session. Following this, management will begin drafting the corporation's corporate plan, which is presented for approval in principle in the fall and for final approval in December or January.

The Board also discusses particular strategic initiatives throughout the year.

Enterprise risk management

The corporation has a well-established enterprise risk management process. It is designed to identify potential events that may affect FCC, to manage risk within the risk appetite of FCC and to provide reasonable assurance regarding the achievement of FCC goals and objectives.

Senior management holds primary responsibility for identifying risks, and designing and implementing solutions to mitigate them. The Board requires that management assure risks are managed and that appropriate authorities and controls are in place.

Each year, FCC staff follows a prescribed process to identify risks. The risks identified are prioritized by senior management and presented to the Audit Committee, together with risk mitigation plans. Within six months, a progress report is made to the Audit Committee.

This year, emphasis was placed on business interruption planning, disaster preparedness and contingency planning in the event of a pandemic.

Succession planning

This year, the Board was pleased to welcome Gill Shaw as Chair of the Board of Directors. In addition, the Board saw four new directors appointed.

John Ryan, who has been the corporation's President and Chief Executive Officer since 1997, will retire in November 2007. His replacement will be critical to the corporation's continued success. The Board, through its Nominating Committee, has begun the search process and has engaged the services of an external search consultant to assist with this process.

In addition, the Board, through its Human Resources Committee, annually reviews the corporation's succession plans for key positions and leadership development initiatives. Succession planning ensures there is continuity and depth throughout the organization over the long term.

The review identifies employees ready to take over a particular position and others who might be developed for leadership positions over time.

The Human Resources Committee encourages management to identify as many people as possible for advancement to ensure a breadth and depth of experience and expertise. This allows for a progression to the executive level, supplemented by outside experience when necessary.

Integrity of internal controls and management information systems

The Board is committed to financial transparency and works closely with the Office of the Auditor General to ensure the integrity of FCC internal controls and management information systems.

Each year, the Board reviews lending targets for the next fiscal year, as well as the corporation's portfolio vision.

FCC treasury operations are key to the corporation's overall success. The Audit Committee reviews the operations of Treasury at each meeting and regularly reviews and updates, as necessary, policies and limits. The Board regularly engages an outside consultant, expert in these areas, to assist its review.

Credit risk is the single largest risk that the corporation faces. The Board oversees the corporation's analysis and reporting of overall credit risk and the performance and health of the FCC loan portfolio.

Finally, the Board oversees the annual audit plan. This includes the audit of the corporation's financial statements by the Auditor General of Canada and the annual audit workplan carried out by the corporation's Audit and Integrated Risk division.

Board orientation and professional development

Upon appointment to the Board, each member receives a detailed orientation and meets with senior management to learn about the business. Board members also have direct access to the Senior Management Team for ongoing education.

To gain understanding of FCC business and the current issues facing the corporation, the Board regularly engages in continuing education. This year, many Board members individually attended conferences and seminars conducted by private sector organizations on various topics relevant to corporate governance and FCC business. In addition, as part of the strategic planning session each year, the Board visits a number of customer operations, creating better understanding of the depth and scope of Canadian agriculture and the issues facing primary producers and agribusiness operators. The Board also takes every opportunity, when meeting in Regina for Board meetings, to tour areas of corporate office and individual business units. Board members also attend employee area conferences to gain a better understanding of the day-to-day challenges faced by the corporation and its employees.

Board composition

The Board is composed of 12 members, including the Chair and the President and Chief Executive Officer.

The Governor-in-Council appoints the Chair and the President and Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other directors with Governor-in-Council approval. Directors serve terms of up to four years and may be re-appointed.

Board members are generally successful primary producers and agribusiness operators from rural and small urban centres. The Board strives for diversity – gender, geographic, ethnic, cultural, age and language – in order to reflect the broad spectrum of agriculture in Canada.

Board remuneration

Directors are paid an annual retainer and per diems. Amounts are set by the Governor-in-Council pursuant to the Financial Administration Act. The rates were last approved on April 5, 2001. The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended:

- committee Chairs receive an annual retainer of $6,400 and a per diem of $375 for meetings attended
- all other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended
- directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties

During 2006-07, there were nine Board meetings and 28 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $218,473, compared to $219,958 in 2005-06. Total Board travel and related expenses was $188,303, compared to $206,841 in 2005-06. Each year, the amounts reported include per diems and travel expenses for Board members who attended FCC annual employee conferences, as well as external seminars or continuing education workshops.

New appointments

On October 30, 2006, Gill Shaw from Brandon, Manitoba, was appointed Board Chair, replacing Rosemary Davis. On December 18, 2006, Sharon White of Vancouver, B.C., was appointed to the FCC Board of Directors to replace Don Haliburton, who resigned as Director on May 23, 2006. On January 25, 2007, Don Bettle from Passekeag, New Brunswick, Brad Hanmer from Govan, Saskatchewan and Ron Hierath from Lethbridge, Alberta, were appointed, replacing Warren Ellis, Joan Meyer and Donna Graham.

Audit Committee

Chair: Marie-Andrée Mallette
Vice-Chair: Jack Christie
Members: Gill Shaw (Board Chair), Claude Ménard, Deborah Whale, Sharon White, Don Bettle and Brad Hanmer

Members of the Audit Committee are independent of management. All committee members are financially literate and several members are considered to be financial experts, as those terms are now commonly used with respect to the composition of audit committees.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial

2006-2007 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)[1]	Board meeting attendance[2]	Committee meeting attendance[3]	Board travel and related expenses
Don Bettle	900	2,625	3,525	1/1	0	2,843
Jack Christie	5,400	12,750	18,150	9/9	13/13	18,182
Rosemary Davis	6,300	11,760	18,060	6/6	12/12	11,788
Warren Ellis	5,333	13,825	19,158	8/8	11/12	26,823
Donna Graham	4,500	12,375	16,875	8/8	9/9	11,021
Don Haliburton	900	0	900	0	0	75
Brad Hanmer	900	1,875	2,775	1/1	0	1,007
Ron Hierath	900	1,875	2,775	1/1	0	2,019
Marie-Andrée Mallette	6,400	18,375	24,775	8/9	13/13	29,526
Russel Marcoux	5,817	13,125	18,942	7/9	19/21	15,467
Claude Ménard	5,400	12,375	17,775	7/9	10/12	21,337
Joan Meyer	5,033	13,500	18,533	7/8	5/5	7,893
Gill Shaw	4,500	10,080	14,580	3/3	16/16	13,279
Réal Tétrault	5,400	12,188	17,588	9/9	20/22	9,909
Deborah Whale	6,400	13,313	19,713	8/9	16/16	13,075
Sharon White	1,350	3,000	4,350	2/2	2/2	4,058
Total	**$ 65,433**	**$ 153,040**	**$ 218,473**			**$ 188,303**

[1] Column A (Board retainer) and column B (Per diems)
[2] There were nine Board meetings (six in person and three by teleconference)
[3] There were seven Audit (six in person, one by teleconference), six Human Resources, six Corporate Governance, and nine Nominating Committee meetings (six in person, one by teleconference and two meetings with consultants in Toronto)

reporting, control systems, integrated risk management processes and audit functions.

This committee meets regularly in private with representatives of the Office of the Auditor General, FCC internal auditors and management.

Important issues dealt with this year included approval of the 2007 Special Examination Audit Plan.

Human Resources Committee

Chair: Réal Tétrault
Members: Gill Shaw (Board Chair), John J. Ryan (CEO), Marie-Andrée Mallette, Claude Ménard, Don Bettle and Brad Hanmer

This committee reviews all major human resources policy matters. The Human Resources Committee is responsible for advising the Board with respect to the skills and characteristics essential to the position of Chief Executive Officer and a process to assess performance, and agreeing to an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's succession plan, including plans for training and development of all employees, and for the review of the executive perquisites program with respect to senior management.

Important issues dealt with this year included approval of a comprehensive new corporate job classification, salary and performance structure.

Corporate Governance Committee

Chair: Russel Marcoux
Members: Gill Shaw (Board Chair), John J. Ryan (CEO), Jack Christie, Sharon White and Ron Hierath

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices including the updating of Board practices and procedures related to conducting meetings, their frequency and length, the kind of materials and information provided to Board members and the reporting of meetings.

The Corporate Governance Committee regularly reviews the number, structure, composition and mandates of the Board's committees and is responsible for conducting Board evaluations concerning the performance of directors, committees and the Board as a whole. The Corporate Governance Committee also oversees the Board's policies with respect to ethics, conflict of interest and code of conduct for directors.

Important issues dealt with this year included overseeing a significantly enhanced Board evaluation process and resulting review of the Board's governance practices, providing direction for the corporation's first annual public meeting and approving a new corporate policy regarding corporate social responsibility.

Nominating Committee

Chair: Deborah Whale
Vice-Chair: Réal Tétrault
Members: Gill Shaw (Board Chair), John J. Ryan (CEO) and Russel Marcoux

This committee reviews the qualifications of possible candidates and makes recommendations to the Board and Minister regarding the appointment of the President and CEO and new members to the FCC Board of Directors.

Important issues dealt with this year included commencing the search process for a new CEO for the corporation.

Pension Committee

Board Representatives: Claude Ménard and Ron Hierath

The Board of Directors provides representation on the corporation's pension committee to oversee the administration of pension plans, including the investment guidelines, the appointment of the pension fund managers and any material changes to the benefits granted to retiring employees. The Board's representatives on the Pension Committee make regular reports to the Human Resources Committee regarding suggested changes to the corporation's pension plans and to the Audit Committee regarding the financial solvency and financial status of the pension plans.

In addition to two Board members, the committee includes senior management representatives and elected employees.

L-R | Donald Bettle, Jack Christie, Brad Hanmer, Ron Hierath, Marie-Andrée Mallette, Russel Marcoux, R. Claude Ménard, John J. Ryan, Gill O. Shaw, Réal Tétrault, Deborah Whale, Sharon E. White

Board of Directors

Donald Bettle, Director since January 31, 2007
Donald Bettle has spent the last 30 years working in the agriculture industry in New Brunswick. He was formerly the chairman of the Canadian Atlantic Dairy Export Co-op, which administers the Canadian Quality Milk Program. His past achievements include serving on a committee to develop Canada's trade position for agriculture and WTO, serving as chairman and director on the Dairy Farmers of New Brunswick, and directing the Canadian Federation of Agriculture and the Agriculture Producers Association.

Jack Christie, FCA, Director since November 27, 2003
Jack Christie is a Fellow of the Canadian Institute of Chartered Accountants and the general manager and CEO at Northumberland Dairy Co-operative Ltd. in New Brunswick, where he has been for the past 19 years. Mr. Christie is also a director and past-president of the Atlantic Dairy Council, and the president of the New Brunswick Milk Dealers' Association. He has served as president of the New Brunswick Institute of Chartered Accountants and as a member of the Board of Governors of the Canadian Institute of Chartered Accountants. Mr. Christie is a past-president and a member of the Rotary Club of Newcastle and is the treasurer for Enterprise Miramichi.

Brad Hanmer, Director since January 31, 2007
Along with his parents and two brothers, Brad Hanmer currently owns and operates a commercial grain and pedigreed seed farm and runs a family-owned seed retail and seed processing and exporting business. He has served as president of the Saskatchewan Canola Growers Association, director for the Canadian Canola Growers Association and was the founding chairman of the Biodiesel Association of Canada – fostering the commercialization of biodiesel in Canada.

Ron Hierath, Director since January 31, 2007
Ron Hierath currently works as a realtor in residential and agricultural sales in Lethbridge, Alta. Before this, Mr. Hierath was a member of the legislative assembly for the Government of Alberta, when he chaired the Standing Policy Committee on Agricultural and Rural Development and became a member of the Grain Marketing and Transportation Committee. Prior to that, Mr. Hierath was a third-generation wheat and barley producer for over 25 years, and a pork producer for over 20 years. He has also served as a member of the Alberta Grain Commission, Western Barley Growers Association, and director of the Western Canadian Wheat Growers Association.

Marie-Andrée Mallette, Chair, Audit Committee, Director since June 16, 1995
Marie-Andrée Mallette participates in a large-scale commercial crops and coloured beans operation in Quebec, with a focus on exporting. She is also vice-president of strategic development for Adnutrio International Ltd. A lawyer in the agriculture domain for 18 years, Ms. Mallette has served as the regional director of the Quebec Business Women's Association and she founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers and has provided advisory services to exporting companies and agricultural operations seeking equity financing. She is active with the Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association. Ms. Mallette contributes to her community by organizing educational programs at the primary level and by participating in fundraising projects for the Canadian Postal Museum and the Canadian Museum of Civilization in Gatineau, Quebec. Her involvement in the community and with the industry stakeholders contributed to the visibility of FCC in the province.

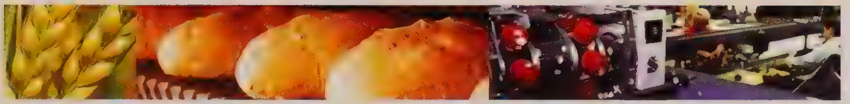
Russel Marcoux, Director since December 10, 2002
Russel Marcoux is the CEO of the Yanke Group of Companies, a firm that specializes in transportation, employing more than 700 staff and operating a fleet of approximately 1,900 pieces of equipment. Mr. Marcoux owns and operates a Saskatchewan grain farm. He is actively involved in the Canadian Chamber of Commerce, St. Paul's Hospital in Saskatoon, Sask., and the Children's Health and Hospital Foundation.

R. Claude Ménard, FCA, Director since March 11, 2005
Mr. Ménard is a chartered accountant with 40 years experience, beginning with a private firm in Montreal, and then with several key senior management roles in the mining, steel and agriculture industries. He was CEO of Agropur, the largest dairy co-operative in Canada, from 1989 to 2003. He has served as chair of the board of directors with NATREL Inc., Aliments Ultima Inc., the George Morris Centre, the National Dairy Council, and sat on the board of the Agri-Food Competitiveness Council. From 1999 to 2006, Mr. Ménard was a Board member with the Groupe Deschênes Inc. Mr. Ménard is a member of the Financial Executives Institute.

John J. Ryan, Director since September 1, 1997
Responsible for the strategic leadership of Farm Credit Canada, John Ryan joined FCC as President and Chief Executive Officer in 1997. Mr. Ryan has been instrumental in creating a high-performance culture at FCC, earning the corporation eighth place among Canada's 50 best employers in 2006. The corporation's customer loyalty and market share has increased significantly during his tenure. Mr. Ryan is a graduate of Harvard Business School's Advanced Management Program and holds a Bachelor of Business Administration from St. Francis Xavier University. Prior to joining FCC, Mr. Ryan was Chief Operating Officer at the Business Development Bank of Canada (BDC).

Deeply committed to community involvement, Mr. Ryan currently serves on the Board of Directors for Regina's Adult Learning Centre and the Hospitals of Regina Foundation. Mr. Ryan is past Chair of the successful Hospitals of Regina Foundation Board, past Chairman for several Regina United Way campaigns and led the CEO Challenge for Habitat for Humanity in 1998 and 2001. In 2002, Mr. Ryan was awarded a Commemorative Medal for the Queen's Golden Jubilee, in recognition of his significant contributions to the people of Canada. The following year, Mr. Ryan was presented with the Leon Leadership Award from Canada's Commissioner of Official Languages for his work in promoting both official languages in the workplace. In 2004, Mr. Ryan received the EXCEL Award from the International Association of Business Communicators (IABC). This international award recognizes a CEO who champions effective communication throughout his or her organization.

Gill O. Shaw, BScA, MBA, Chair and Director since November 2, 2006
Gill O. Shaw has over 30 years of experience in agricultural and financial management, and is a specialist in large commercial credit administration. From 1991 to 2002, he served as chief executive officer of the Manitoba Agricultural Credit Corporation and, during that time, was a member of the executive committee of the Manitoba



Department of Agriculture. From 1989 to 1991, he served as executive director of the Manitoba Farm Mediation Board. He lives in Brandon, Man.

Réal Tétrault, Director since June 23, 2005
Réal Tétrault owns and manages Emerson Milling Inc., a successful oat milling company he started in 1987. Emerson Milling currently exports to the United States, Mexico and South America. Mr. Tétrault also previously managed and operated a 2,000-acre grain farm. Mr. Tétrault is quite active in grain research and development and has participated in numerous studies and breeding programs. He has initiated several projects in partnership with the University of Manitoba and the University of Minnesota in agri-food and animal feed. Mr. Tétrault is a founding member of the Prairie Oat Breeding Consortium at the University of Manitoba. He sits on the board of the Emerson Economic Development Group and is a member of the Manitoba Food Processor Association. As well, Mr. Tétrault is a participating member in foreign trade missions with the Government of Canada and the Government of Manitoba.

Deborah Whale, Director since November 4, 2003
Deborah Whale is vice-president and co-owner/operator of Clovermead Farms Inc., a commercial dairy and veal production business. She is on the board of the Ontario Livestock and Poultry Council, the board of the Alberta Poultry Research Council, the board of the Ontario Institute of Agrologists and on the CFIA's Avian Influenza Advisory committee. She was co-chair of the Minister's Advisory Committee, Canadian Food Inspection Agency, chair of the Agriculture Research Institute of Ontario, chair of the Veterinary Infectious Disease Organization and is the vice-chair of the Ontario Farm Products Marketing Commission.

Sharon E. White, Director since December 19, 2006
Sharon White is a graduate of the University of British Columbia. A practicing lawyer since 1981 in the area of corporate/commercial law, she is a partner at Richards Buell Sutton LLP, one of British Columbia's oldest law firms, and is head of their Corporate Finance department. She also serves as a director and chair of the Audit Committee of FreshXtend Technologies Corp., a company involved in the development and commercialization of life extension technologies for the fresh produce and flower industries. She is the past chair of the Securities Section of the B.C. Branch of the Canadian Bar Association. She is a member of the Law Society of British Columbia, the Canadian Bar Association, and a former member of the Bermuda Bar Association and the Council of Canadian Administrative Tribunals.

"I have been fortunate to work with the diverse and knowledgeable professionals who serve on the FCC Board. This year, we said farewell to several members whose contributions have been invaluable. I would like to acknowledge the work of Rosemary Davis, Warren Ellis, Donna Graham, Don Haliburton and Joan Meyer. Their expertise and enthusiasm will be missed." – John J. Ryan

L-R | Rosemary Davis, Warren Ellis, Donna Graham, Don Haliburton, Joan Meyer

Board Acknowledgments

FCC and the agriculture industry have benefited from the passion and unwavering commitment of the Board of Directors. This past year, several long-time members completed their terms and FCC acknowledges their many contributions.

Rosemary Davis – appointed December 19, 1995
With more than 30 years' involvement in Canadian agriculture, Rosemary Davis is a leader in the industry as well as a role model for many. Rosemary continually demonstrates her leadership in agriculture through innovation, creativity and a passion for the success of the industry.

In 2000, Rosemary became Farm Credit Canada's first female Chair of the Board. During her time on the Board, she supported important projects like the creation of the FCC AgriSpirit Fund, the Drive Away Hunger tour and Parliament's passing of the new Farm Credit Canada Act in 2001.

Under Rosemary's leadership, the portfolio has grown from $5.8 billion to $13 billion, with profits on operations reinvested in agriculture across Canada.

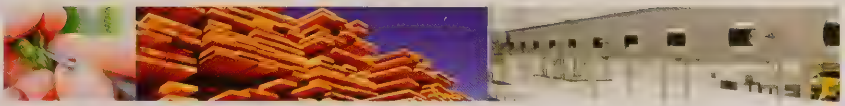
Warren Ellis – appointed April 4, 1995
Our longest serving member of the Board, Warren Ellis was Chair of the Audit Committee prior to becoming the Chair of the Human Resources Committee and he championed FCC with the federal government.

As Chair of the Human Resources Committee, Warren was key in championing the cultural practices. The transformation resulting from these HR practices led FCC to be ranked eighth on the Globe and Mail's 50 best employers in Canada study. Warren was passionate about acknowledging employees and rewarding them for their efforts. Warren demonstrated a deep commitment to FCC, with a near-perfect attendance record at Board of Directors and committee meetings during his 12 years on the Board.

Donna Graham – appointed September 26, 2000
Always personable, Donna Graham loved to meet staff from across Canada. She coined the phrase "it's cool to do business with FCC."

Donna is passionate about the sustainability of rural Canada and promoting agriculture as a great career for young people. She is a key supporter of Agriculture in the Classroom and the importance of raising awareness regarding the important role women play on the farm and in agriculture. As a member of the Human Resources, Corporate Governance and Audit Committees, Donna ensured that staff were supported to do the best job possible.

Don Haliburton – appointed November 4, 2003
Don Haliburton's considerable knowledge in accounting and corporate social responsibility made him a great asset to the Board. His interest in compensation and rational approach to business were appreciated by his Board colleagues.



Joan Meyer – appointed January 11, 1995
Joan Meyer believes that women are vital to the success of the agriculture industry and encourages Canadian women to be active on boards and in associations. Leading by example, Joan was appointed to the Board in 1995, becoming one of its longest-serving members.

Her passion on the Board was corporate governance. Joan ensured that FCC was at the forefront of Crown governance practices encouraging transparency and accountability. Joan was instrumental in promoting Board evaluation and the continual improvement of Board-management relations.

The last 10 years in agriculture at FCC can best be described as a period of unprecedented change. The direction and support provided by these Board members to the management team has been a major contribution to the success FCC has enjoyed. All employees owe our outgoing Board members a deep sense of gratitude.

L-R | Gertie Blake, Jacynthe Gagnon, Mabel Hamilton, Noreen Johns, Kay Young

The FCC Rosemary Davis Award

Women have always played a major role in agriculture.

They give of themselves in their communities and beyond – producers, veterinarians, teachers, researchers, agribusiness operators – you name it. These are women who are active leaders in Canadian agriculture.

To celebrate their many contributions, FCC created the Farm Credit Canada Rosemary Davis Award, named after the first female Chair of the Farm Credit Canada Board of Directors.

The 2006-07 FCC Rosemary Davis Award winners are:

- Gertie Blake, member service representative, Ontario Federation of Agriculture, Hanover, Ont.
- Jacynthe Gagnon, president of the Fédération de l'UPA de la Rive-Nord, La Malbaie, Que.
- Mabel Hamilton, teacher/purebred ranch co-owner/operator, Innisfail, Alta.
- Noreen Johns, farmer, Allan, Sask.
- Kay Young, farm partner, Young's Beef Farm, Lethbridge, N.L.

L-R

*Executive Committee member

Greg Honey* – Senior VP, Human Resources
Michael Hoffort – VP, Partners and Channels
Louise Yates – VP, Strategy and Customer Experience
Dan Bergen – VP, Operations – Western Ontario
John J. Ryan* – President and Chief Executive Officer
Kellie Garrett* – Senior VP, Strategy, Knowledge and Reputation
Clem Samson – VP, Operations – Prairie
Faith Matchett – VP, Operations – Atlantic and Eastern Ontario
Greg Stewart* – Executive VP and Chief Operating Officer
Larry Martina – VP, Operations – Western

Senior Management Team

"It's been an honour to work alongside the FCC Senior Management Team (SMT) for the past decade. These professionals lead by advising, setting priorities, executing corporate strategies and coaching their respective teams to enhance the customer and employee experience. Their contributions have led to the overall success of the corporation. I'm grateful and appreciative of the efforts and results of all SMT members and their teams. I welcome the new members on SMT and I look forward to their continued leadership in maintaining and growing our commitment to agriculture." – John J. Ryan

L-R

*Executive Committee member

Lyndon Carlson – VP, Marketing and Product Development
Don Stevens – VP and Treasurer
Paul MacDonald* – Senior VP and Chief Information Officer
Moyez Somani* – Executive VP and Chief Financial Officer
Rémi Lemoine – VP, Credit Risk
Joy Serne – Senior Director, Culture
Brad Strom – VP, Enterprise Architecture
Rick Hoffman – VP, Finance and Venture Capital
Ross Topp – VP, Audit and Integrated Risk
Alain Gagnon – VP, Operations – Quebec
Corinna Mitchell-Beaudin – VP, Portfolio Management

FCC follows the guidelines of Canada's Financial Administration Act, exercising care in decision-making and business activities. The corporate employee code of conduct and ethics reflects the highest ethical standards of business, professional and personal conduct. SMT adheres to these high standards, which include FCC cultural practices.

These cultural practices, which apply equally to managers and employees, foster a work environment worthy of national recognition. This year, FCC placed eighth on the annual Globe and Mail's Report on Business magazine survey naming Canada's top 50 employers, an accomplishment that makes SMT very proud.

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor-in-Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2006-07, the salary range for the President and CEO was set at $255,000 to $305,500. The salary range for Executive Vice-Presidents was $189,035 to $289,110. The salary range for Senior Vice-Presidents was $136,855 to $209,305. The salary range for Vice-Presidents was set at $115,030 to $169,165. The salary range for Senior Director was set at $102,140 to $138,200. Total compensation paid to SMT was $5,237,813.

Glossary of terms

AgProduction
AgProduction refers to customers who get loans from FCC and includes agricultural operations that produce raw commodities such as crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock. These include but are not limited to vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of fish, both ocean and land based) and lifestyle customers.

AgValue
AgValue refers to agribusiness customers who get loans from FCC. It includes customers who are suppliers and/or processors that are selling to, buying from, and otherwise serving primary producers. These include equipment manufacturers, dealers, input providers, wholesalers, marketing firms, sawmills and processors.

Alliances
Relationships established by contract between FCC and other agricultural or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses
Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Arrears
Arrears are defined as all amounts greater than $500 that are past due.

Asset/liability management committee (ALCO)
A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point
One hundredth of one percent, used when describing applicable interest rates or the yield of an investment.

Corporate governance
Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Corporate social responsibility (CSR)
CSR is about accessibility, accountability and transparently pursuing long-term corporate objectives in a manner that balances corporate decision making, behaviour and performance with the evolving values, norms and expectations of society.

Counterparty
The opposite side of a financial transaction, typically another financial institution.

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Debt-to-equity ratio
The level of debt expressed as dollars of debt per one dollar of equity.

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

Efficiency ratio
A measure of how well resources are used to generate income calculated as administration expenses as a percentage of revenue (composed of net interest income, net lease income and other income).

Enterprise
Specific type of agricultural operation, for example, dairy, cash crops, beef, etc.

Enterprise risk management
The balance of the corporation's risk-taking activities and risk management practices within the context of executing corporate strategy and achieving our business goals and objectives.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis
A tool to measure the maturing balances of assets and liabilities for interest rate risk management purposes at specifically defined periods.

Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans
Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred on debt.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR)
Exposure to a decline in net interest income and capital position as a result of changes in interest rates. Varieties of interest rate risk include prepayment risk, commitment risk and reinvestment risk.

Leverage
The relationship between total liabilities and the equity of a business.

Liquidity risk
The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net disbursements
Represents disbursement of funds against approved loans excluding refinancing of existing FCC loans.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Prepayments
Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Provision for credit losses
The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on assets (ROA)
Net income expressed as a percentage of average assets.

Return on equity (ROE)
Net income expressed as a percentage of average equity.

Risk scoring and pricing system (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic credit risk model (SCRM)
A tool to measure overall credit risk present in the portfolio, which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value-added
Agricultural businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

Variable interests
Contractual, ownership or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets.

Variable interest entity
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta
Barrhead, Brooks (S), Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, Stettler (S), Stony Plain, Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard (S), Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River (S), Virden

Ontario
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, North Bay, Oakville, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Drummondville, Gatineau, Granby, Joliette, Québec, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, St-Georges-de-Beauce, St-Hyacinthe, St-Jean-sur-Richelieu, St-Jérôme, Trois-Rivières, Victoriaville

New Brunswick
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